


Political Capital in A Transitional Economy
——A Study of Chinese Private Entrepreneurs

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ABSTRACT

Since the Chinese market reform, Chinese private entrepreneurs have formed their own characteristics different from other social classes. The purpose of this research is to test the significance of political patronage and clientelist networks in the development of private enterprises. Through analysis of existing survey data of 1993, 1995, 1997 and 2000 and field interviews with officials and private entrepreneurs, I attempt to arrive at a deeper understanding of the relationship between the nascent private sector and the communal system. I am especially interested in investigating whether there is still clientelism between government officials and entrepreneurs, and, if so, what are the rational principles behind this clientelism and what are the motivations on both sides.

My main findings are that the significance of party membership is declining and education is gaining importance, as market transition thesis would predict. Political connections (social capital) have increasing or persisting significance in the rural setting but not in the urban setting. I argue that these changes are due to a new kind of clientelism. In this context, entrepreneurs needn't pursue patron of government in the old informal way through opportunistic rent-seeking activities. There are new game rules represented by principled clientelism.

論文提要

從市場經濟改革以來，中國的私營企業主已經形成了不同於其他社會階層的特點。本研究旨在探討在私營企業發展過程中政治資本和庇護主義網路的作用。通過對現有的 1993，1995，1997 以及 2000 年對全國私營企業問卷調查資料的統計分析以及對政府官員和私營企業主的訪談，本文試圖達到對新生的私營領域和原有的舊體制之間關係的深入理解。本文著重探討在政府官員和私營企業主之間是否仍然存在庇護主義關係。如果有的話，這種關係背後的理性原則和雙方的動機是什麼。

主要的發現是：在私營企業發展壯大過程中，正如市場轉型理論所預測的那樣，黨員身份已經沒有顯著作用，對教育的回報顯著增加。與政府官員的關係依然在農村有顯著的作用，但是在城市並不顯著。這些變化是由於一種新的庇護主義關係在農村的出現。在這種情景下，私營企業主不需要以舊有的非正式的機會主義的尋租方式尋求政府的庇護，而是產生了一種以原則性庇護主義為特徵的新的遊戲規則。

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CHAPTER 1 INTRODUCTION

1. INTRODUCTION

Twenty years after the economic reform, China can boast of a large and growing private sector. Up to the end of 2001, there are 2,030,000 private enterprises and 27,140,000 private entrepreneurs in China. The yearly increasing rate is about 34%.¹ This is especially stunning if one recalls the extreme concentration of state socialist economy or the lack of formal institutional arrangement of property rights. As the result of reunification of socio-economic structure, interest structure and social relationship, and as new economic elites, Chinese private entrepreneurs have formed their own characteristics different from other social classes (Li 1995, 1998; Dai 2001; Song 1998). However, due to dispersion of property rights, it has not produced identifiable owners yet. It can very well be that the formation and emergence of private entrepreneurs is the most fascinating phenomena in Chinese social structure, attracting attention from both academic community and policy-makers (Li 1995). The revival of private business is regarded as one of the most consequential economic departures from orthodox central planning. The

¹ Data resource: Chinese Business Time

economist János Kornai concludes that “the rise of the private sector is the most important tendency in the economic sphere during the process of reform. It brings a deep change, since it affects the property relations and it does so in a radical way: private property appears alongside public property”(Kornai 1992:433).

Many researches have been done about Chinese private entrepreneurs, but most of them are empirical descriptive researches, or exploring the process of development from the view of social network and social capital. As what the existing researches indicate, the Chinese private economy has never escape the influence of the old system. No matter the construction and use of social network (Lin 1995) or the relational convenience (Yang 2000), all of them are the survival strategies of private entrepreneurs to face the existing system. The old system begins to shake, but the new rules have yet to be established. In order to survive, the private entrepreneurs ultimate their best to make the most of the resources they can control. Actors confronted with new challenges, and operating within old institutional constrains, come up with innovative answers (Eyal, Szelenyi and Townsley 1998). Observers of communist orders have pointed out that economic organizations and political power are defined by the party-state’s bureaucratic control of resources (Djilas 1957). Central planning places allocation in the hands of the Communist Party officials. In this institutional arrangement, private entrepreneurs have to rely on relationship with officials——controllers of resources——to develop themselves. However, market has developed to some degree nowadays, and almost all the resources can be obtained in the market. Why private companies still try to cultivate their relationship

with government officials? Is their relationship really like some researches show: private entrepreneurs cultivate it forwardly and strategically? Does it become less important as formal structures become more routinized? Has the pattern or power characteristic between them changed? What do the changes tell us about the nature of political capital in Chinese society? These are the questions this research attempts to answer.

In a post-socialist society as China, the valuable resources include not only economic capital and social capital, but also political capital. The distinctive feature of the construction of political capital lies in the fact that it is a self-conscious process from the very beginning, and is never the final destination. But its transformation with other kinds of capitals has no institutional arrangement or legal basis, thus providing a gray space for private entrepreneurs to choose their strategies.

It is assumed in current literature about entrepreneurship that focal entrepreneur operates in a market-based economy where property rights are protected and has substantial discretion over the allocation of resources. Thus, the astonishing development of Chinese private economy in former centrally planned economies undergoing transition toward market-driven economies, where the entrepreneurial context is characterized by turbulence and change, has aroused the interest of both sociologist and economists.

Theoretically, the Chinese transitional economy has aroused a lot of debates. The Market Transition debate for example, has been going on since 1980s and is still continuing. Institutional changes in the transformation of state socialism beg

theoretical explanations. But theorizing should be built on, not substitute for, the knowledge of the specific context and the processes in which these changes take place. Zhou Xueguang suggests directing our attention to seek answers in the actual processes of institutional changes, rather than confine our imagination within the terms of the current debate (Zhou 2000b). So, examining the operation of private business highlights the organization of the emerging market economy, and the institutional basis of its performance and political consequences (Wank 1999). This research reflects on the debates over political capital in the evolving market economy. It is this literature that I will engage with in the pages that follow.

2. SOCIAL BACKGROUND

Social Structure Change After Mid-1990s

Human beings as social actors constitute different social forces, which are the forces that change the social structure and the organization of society. Social structure is the relatively stable relationship among different social forces. At the beginning, China is building capitalism from below and characterized as gradual reform. The most dynamic sector of the Chinese economy is village industry. This industry is typically small-scale; it operates with new firms which are either privately owned or can be described as a hybrid property form in which elements of private ownership can be detected (Eyal, Szelenyi and Townsley 1998). The development of

capitalism from below depends on the fact that the balance of forces between the bureaucracy and the technocracy has not been tilted in the latter's favor.

As Gerber points out: "the impact of structural change on stratification has received surprisingly little attention in the literature on post-socialist stratification"(Gerber 2002). For example, in China, the public industrial sector began a pronounced shrink in the early 1990s that continues to the present. Large numbers of these public firms were closed, or were leased or sold outright to private individuals, inevitably raising questions about the durability of this presumed economic base for cadre power and prosperity (Kung 1999; Li and Rozelle 2000; Oi 1989,1999; Ruf 1999; Whiting 1999,2001).

Since 1990s, there have been a series of important changes in Chinese socio-economic structure. On trend is that consumption and production are transforming from "necessities driven" to "durable commodities driven". The other is the recentralization of social resources instead of the diffusion in the 1980s. Both of these changes have great impacts on Chinese socio-economic structure, resulting in the shift of different social forces as well as the appearance of different unification and contradiction relations (Sun 2002b).

Many of the old definitions and measurements have to be revised due to the changes after mid 1990s. For example, with the expansion of Chinese private economy, entrepreneurship alone is not enough to measure economic success. In the earlier years of the reform, the people engaged in private business could easily earn relatively much higher money than those stayed in the commune sectors, no matter

what they were doing. Whereas when it comes into the mid-90s, the private business become quite competing and only people have the right properties can survive. This research will take this into consideration and assume an alternative measurement of economic superiority.

Free Resources and Free Opportunities

One of the most important results of market reform is the releasing of the national control of rare resources, which can be seen in the formation of free resources and the extension of free opportunities. As widely discussed, before reform, most of the resources are monopolized by the state. One of the goals of system reform is the retreat of state power in resource control (Sun 2000). With economic growth, scarcity, which is a main characteristic of center-planned economy, diminishes. Free resources are growing due to the creation of wealth out of the communal system as well as the transformation of the wealth in the old system. With the emergency of free resources, a social space out of the state socialist arrangement is in the form. People no longer rely on the “organization (*zuzhi*)” (the bureaucracy or the party) to give them a job. On the contrary, they abandon their positions in the work units or the collective production teams to pursue their own opportunities of self-development. A relatively autonomous market has almost formed. People’s lives are less dependent on the party-state and work units.

However, these by no means mean that the “free resources” and “free space” or “opportunities” gain the autonomy as their counterparts in the western capitalist

world. As researches show, politics and administration are still a very important resource with strong radiation and penetration power. Even the other resources that mobilize totally in the market are under the great influence of political and administrative power (Sun, Jin, He and Bi 1999).

3. RESEARCH QUESTION

If one goes through newspaper or magazines published ten years ago or even later, it will be very easy to find this kind of reports: private entrepreneurs, who are popularly called “dakuan”(very wealthy guys) are always in their luxurious cars, giving seemingly unreciprocated gifts to government officials from door to door. Using their money, they gain a lot of benefits from officials. My empirical question here is whether the relationship between entrepreneurs and government officials has changed. What is their relationship (*guanxi*) like nowadays? Is it more likely to gain economic success if one is a party member or has more political background?

It has been believed for a long time that Chinese private company owners operate without the structural protection of governmental support, which is more available to state-owned and collective-hybrid organizations. But they will not passively await their fate. Rather, by developing relationship as a substitute for the formal institutional protection government ownership offers their counterparts, they will cultivate close personal relationship with people useful to business, especially the

individuals who hold positions in government (Xin and Pearce 1996).

This particular research attempts to pinpoint the role of political capital in the development of private enterprises, and the change of its impacts in 1990s. I focus my discussion on the connection between private entrepreneurs and political officials in a post-communist society with a deeply developed market. I try to answer these questions in this research: what are the impacts of political capital in the growth of private entrepreneurs? Whether the impacts change from year to year? How does the transitional mechanism between political capital, social capital and economic capital works? Particularly, I will focus on whether there is still clientelist relationship between government officials and entrepreneurs? Has the clientelist relationship changed? If they do, what causes the change? The further theoretical concerns in this research include whether the existing social phenomena in China is a transitional character or it will be preserved as a new way of deploying resources and pursuing social interest.

This research explains the empirical phenomena within the framework of clientelism, distinguishing different types of clientelism by the inter-changing mechanism of the two sides. In the following, I will first briefly review the developing history of Chinese private entrepreneurs² in China since 1949, distinguishing three periods according to their relationship with the old system,

² According to official document enacted by China State Council in 1988, Private owned enterprise is “economical organization owned by individual that employs more than 8 workers”.

review relevant literature, then formulate hypotheses on the basis of my in-depth interviews, and finally, test rigorously these hypotheses with survey data. The conclusion and discussion part will echo some broader theoretical concerns, such as whether the phenomena in China's market transition are temporary or will they become the elements of new institutions.

CHAPTER 2 HISTORY OF CHINESE PRIVATE ENTREPRENEURS

After 1949, the annihilation of Chinese private economy was achieved by political force. After a series of political movements, from public-private joint management to total nationalization of private companies, private economy vanished for more than 20 years in China, which means that the new generation of private entrepreneurs had no kindred relation with previous generations. It was impossible for Chinese private economy to avoid relations with political power not only due to its historic background, but also because of the government's dominating power in redistributing sources, especially scarce resources. Thus, private economy had countless ties with political power from the very beginning.

According to their relationship with the commune system, we can roughly divide the history of Chinese private entrepreneurs into three distinct periods. In each of these periods, the relationship between private business and commune system changed, resulting in different social structure and rules.

1. First Period: 1978-1992 Out of the System

At the beginning of the reform, there were two main economic as well as social purposes for reviving private business. The first was to solve the serious unemployment, which was an immediate issue especially after thousands of youth came back from “reeducation” from countryside. Secondly, small private business was expected to produce the goods and services that had been neglected by state and collective enterprises, and to stimulate these enterprises to greater efficiency through competition (Tsang 1996; Tan 1996).

The genesis of the first batch of entrepreneurs was driven by push factors. People started their enterprises because they had few other choices. Among the first groups of private business owners many were young people back from countryside, who had been waiting for a job for years. Others were mainly “sanjiaojiuli”, which means the other unemployed people due to their badness, for example, previous criminals. Another part came from residual labor force of rural China due to increasing agricultural productivity. Although their backgrounds were greatly varied, they had something in common. They were socially, politically, culturally, and economically “displaced”, which means that they cannot find a place for themselves in a unitary society. They grew up out of the system.

Throughout the 1980s, although there were calls for privatization, government emphasis was on how to improve the performance of the State-Owned Enterprises (SOEs) by changing their internal governance. Saving the loss-making state

enterprise was still the main concern of the government. The private sector was always regarded by the government as playing a supplementary role in the economy. Private economy had not yet gained full legitimacy. The apparent contradiction between Marxist ideology and private ownership has not been satisfactorily resolved. It aroused a lot of disputation in the Chinese Communist Party (the CCP). The central government assumed a quite conservative tolerance policy towards private sector, refusing to ensure its ideological legality.

The ideological problems of labor exploitation and income polarization associated with private business had serious repercussions on policy implementation and had constrained the entrepreneurial development (Tsang 1996). Private economy was permitted to exist simply because of its economical function. It was only after 1987 that private economy was officially accepted as the complement of socialist economy, but private enterprises still could not have the same status as their counterparts in redistributive sector. Their situation is especially worse after the political movement in 1989. In this period, central government's attitude toward private economy waved from conservative tolerance to half affirm its legitimacy, and then to the severely suppression due to the 1989 movements.

As for private entrepreneurs in this period, they still had trouble in bargaining with administrative departments, especially in applying visa, getting permission or banker's acceptance credit.

Considering the uncertain environments, owners and managers being the same person, it was not difficult to understand that Chinese private entrepreneurs share a

common fear: in the absence of adequate legal protection of private property rights, they were constantly concerned about possible hostility directed against them in a future political campaign and about the possible appropriation of their assets. This can be seen in their reluctance to make long-term investment for business expansion. They would rather spend their returns on their personal consumption, investing in foreign banks or bought Cadillac or Lincoln automobiles, unwilling to reinvest for business expansion. Although they had relatively higher income, private entrepreneurs' social status was marginal. Case studies show that most private entrepreneurs had no intention of passing their business on to their children. They had the feeling that their social status was low and still valued jobs in commune system, taking their children out of the family business to elevate them through education into the bureaucracy or professionals (Shi 1993). In this sense, strategic orientations of Chinese entrepreneurs more resemble opportunistic middlemen than modern capitalists (Shi 1993; Tan 1996).

To survive, private entrepreneurs must try to get the patronage of political power, resulting in rampancy of rent-seeking activities. Whereat, corruption became the most serious social problem. "Local power is personalized to such a degree that the law is identical to the officials in power, and legality is the specific way of employing such power. Thus the scope of private entrepreneurship is laid down by the practice of local bureaus, and the public reactions toward them concern their 'fairness', rather than their legality" (Bruun 1993).

During this period, puny private economy was only a limited complement

compared with mainland China's dominating state owned economy, developing itself in the aperture of redistributive system all along, without any influence to the operation of the old systems. On the country, it was always constrained by the old system. Although on local level there were some alternatives as supporting policies, central government only acquiesces the growth of political economy conditionally. Government monopolized the country's economic resources; private business activities were limited to personal services and some other unimportant industries. What's more, it had no political legitimacy. To deal with the uncertain environments, private entrepreneurs totally depend on their personal connections with government officials to seek patronage and protection. The power relation between these two social forces is unbalanced. Local officials can harass private entrepreneurs as they wish and the latter can do nothing about it but to bribe and establish a relationship with them.

Considering these conditions, their status must be very frail, taking the famous political events of 1989 as a good example. After June 4 1989, private entrepreneurs and self-employed businessmen, which were defined as the class basis of "anti-revolution mob", were the objects of a series of political check and purge. Under such a high-pressure political hit, private economy declined dramatically (Yang 1998).

2. Second Period (1992-1997): Intertwine With the System

After Deng Xiaoping's visit to the south in 1992, the private economy experienced a groundbreaking development. In the "go into business" upsurge, many former government officials and intellectuals abandoned their jobs and entered the private sector. They not only strengthened the private economy, but also improved the average quality of private entrepreneurs.

Because this new part of private entrepreneurs originally came from the privileged sector of redistributive system, they had greater affinity with the old power system. Most of these private entrepreneurs obtained their advantages through power-money exchange and had close relation with some officials. Solinger describes a "symbiotic relationship" between entrepreneurs running larger private firms and officials staffing the lower bureaucracy; entrepreneurs give officials income through bribes and other payments, while officials give entrepreneurs access to capital in the state structure (Solinger 1992). However, although the two sides' interaction was quite frequent, or even rather close sometimes, their interaction and communication were almost based on personal level without any effective institutionalized channel.

Coming into the end of 1980s, the performance of SOEs was getting worse and worse. They could not be the main tax resource of government. On the country, they became a heavy burden for the central state's financial budget. It was in this situation that the legal status of private enterprises gradually changed. Accordingly, the private sector mushroomed and the composition of private entrepreneurs changed, from a

previously social group with relatively lower education level to a social group with higher education background than the country's average level. Till 1999, more than 20% of them have college or higher education.

Meanwhile, reform measures such as lease contract and incorporation potentially led to privatization of the old economic sectors, especially Town and Village owned enterprise (TVEs) (Yao 2001). Real privatization started after Deng Xiaoping's visit to the south in 1992. As in the case of many other reform initiatives, privatization was first started from localities and finally sanctioned by the central government. Large-scale privatization of state or collective assets was still insignificant, initial changes in ownership composition proceeded by gradually liberalizing restrictions on private entrepreneurial activities (Peng and Luo 2000).

Formal policies began to totally affirm the legitimacy of private economy, and a series of practical policies, which are beneficial to private sector, were enacted. Generally speaking, in this period, the CCP and the central government affirmed private economy's status as "the important part of socialist economy", making its environment more predictable. But the enforcement of these policies was very poor. Actually, before 1997's 15th conference, Chinese government's statutes about private economy were unstable, and the policies had no institutionalized and legalized protection. A lot of policies and rules lack long-term efficiency, and varied greatly in different parts of the country. These situations not only made administrative officials more arbitrary in explaining and enforcing central policies, but also fostered officials' predatory behaviors on private entrepreneurs (Chan and Qiu 1999).

In this period, the entrepreneurial context was still characterized by turbulence and change. Such an environment brought about many niches unfulfilled by the state planning mechanism, and allowed entrepreneurs to perform two critical activities: connect different markets and answer market deficiencies. However, that do not mean the Chinese private entrepreneurs lack the spirit of entrepreneurship. Previous researches indicate that the existence of many unfulfilled niches in former centrally planned economies characterized by shortage, coupled with aggressive strategies, increased an entrepreneur's chance for early survival, similar to what has been found in their Western counterparts. What's more, even under the uncertain conditions characteristic of China's current mixed economy, Chinese private entrepreneurs assume strategies consistent with the traditional profile of entrepreneurs, which is characterized by innovativeness, proactiveness and risktaking to deal with regulatory hostility, dynamism, and complexity (Tan 1996). All these lay the potential possibility of private economy to influence the central planning system by changing game rules and institutional settings.

On local level, the relation between entrepreneurs and officials was even closer, and therefore more complicated. The interests of local government officials and enterprises overlapped, especially in rural China. Prompted by the fiscal pressures on local governments as a result of the fiscal reforms, particularly by the 1994 tax-assignment reform, local governments were eager to promote local industrial growth. Apart from absorbing rural surplus labor and contributing to the provision of communal welfare to local residents, rural enterprises provided local governments

with tax and non-tax revenues to finance their expenditure obligations. In return, local governments provided preferential aids to their enterprises in the form of tax and credit privileges, and also protected local enterprises from central authority (Kwong and Lee 2000; Oi 1999). In this light, Oi makes further argument that mutual dependence rather than predation was a more apt description of the relationship between local governments and local enterprises (Oi 1999).

Liu Yia-ling describes a new “interest convergence” between officials and entrepreneurs. In the effort to stimulate private business, local officials sheltered it from restrictive central policies and let entrepreneurs register their enterprises as collectives in order to bypass restrictions on private business (Liu 1992). This phenomenon was very popular and famous in this period. It was well known as “wearing red taps”. This is a kind of camouflage without any veil. Although they could take shelter from taxes and regulatory impositions by paying village governments to register them falsely as collective enterprises, private entrepreneurs’ false registration put the legality of their ownership in an ambiguous status. They consequently wanted a way out of their arrangement (Unger and Chan 1999).

On macro level, the decline of state owned economy provided thriving private economy more space to develop in more industries. In some industries, private enterprises even became dominating. It was obvious that government was more and more dependent on private economy, which means that private economy was no longer unimportant complement, and its development was no longer due to the concession of central government. Contrarily, not only economy, but also social and

regime stability must rely on the growth of private economy. Up to then, it was impossible to assume anti-privatization policies no matter what ideological disputation arose. Private economy gained its own political influential force through its strength, winning the ability to change the existed system, especially the ability to change its own relationship with the establishment.

However, this period is featured of chaos because of the growing bargaining power of private economy. The policies are always changing. What is legal today could become illegal tomorrow. Private entrepreneurs are at loose ends. If they abide by the rules, it will be very difficult for them to survive. The only right choice is to get out of the line. So they try to avoid these rules and realize their goals through all kinds of illegal or unwarrantable methods, including bribing the government officials.

3 Third Period (1997-now): New System in Form

The 15th CCP conference came to the conclusion that private economy can and must contribute to socialism. Private economy was accepted as a very important component of socialist market economy. “Three representatives” rely on private economy.

Actually, Chinese government had not firmed up its stand on private property rights until the end of 1990s. Starting in 1994, “enterprise transformation”(gaizhi) began to spread to the whole country. The content of *gaizhi* included contracting and

leasing, the two methods used before, as well as new methods such as selling to private owners, employee-holding, incorporation, listing on the stock market, restructuring of internal and external governance, and bankruptcy. By international standards, gaizhi qualifies as a property rights revolution although this revolution has been largely silent (Yao 2001). Facing criticism that it led to the loss of state assets, the government seemed to put more emphasis on developing the private sector itself rather than on using privatization as a means to reform the collective sector.

Due to the development of market and increase of free resources and opportunities, private economy depended less on government. They can obtain almost all they want in market. In some areas, most of the factory owners considered the local government as of limited and tangential importance to the success of their business. In rural China, Unger and Chan observed a weakness of leadership and a loss of community cohesion. "The very nature of this private industrial development has affected the texture of relations between the local Party-state and residents" (Unger and Chan 1999).

In their case study of Xiqiao, Unger and Chan find that the private owners there felt little need to wine and dine officials, or to ply the local officials with gifts to secure their patronage, nor did they feel it to be of any particular advantage to subordinate themselves to the officialdom in other ways in order to survive and prosper in their business. Unger and Chan introduce this phenomenon just to indicate that the private sector has expanded to carry social and political weight. I have similar finding in my interviews. Private economy has achieved advanced

CHAPTER 3 LITERATURE REVIEW

In answer to the enduring questions on political capital in transitional economy, a growing body of literature has emerged over the last two decades that can be broken down into three perspectives.

1 MARKET TRANSITION DEBATE

Market Transition Thesis

The concern for the transition from socialist plan economy to market economy dates back to the core concepts presented by Polanyi: redistribution and non-market trade, which consist the main characteristics of socialist redistribution economy (Polanyi 1944).

Based on Polanyi, Victor Nee raises his classical Market Transition Thesis (Nee 1989). Nee views Chinese market reform as a transition from a plan economy to a market economy in which the two economies are defined in ideal-typed terms as logical opposites (Kornai 1992; Nee 1989). The core idea of Market Transition Thesis is that the main impetus of change in mechanism of stratification in post-socialist countries is due to the emergence of market institution, in which the

redistributors relatively lose some of their privilege (Nee 1989; Cao and Nee 2000).

Nee notes that China's transitional economy is characterized by weak capital market structures, poorly specified property rights, and institutional instability, of which a lack of coherent business laws is an example. These characteristics make market exchanges uncertain and costly (Xin and Pearce 1996). For the current transitional period, Nee presents the idea of a hybrid organizational form—the marketized redistributive firm. Under the conditions of partial reform, marketized firms enjoy a transaction cost advantage over alternative governance structures. Changes in the institutional environment stemming from the spread of markets and the changing structure of property rights, however, increasingly favor private firms (Nee 1992).

Market Transition Thesis stresses the change of power structure between the state socialist redistributive elite and economic actors as a key process in shaping the post-socialist stratification order (Nee 1989). It argues “entrepreneurs, managers, and professionals in this market sector are likely to challenge the redistributors’ monopoly over elite positions, resulting in a relative decline in the advantage based on political power” (Cao and Nee 2000). The shift to the market mechanism reduces dependence on superordinate bureaucratic agencies, as producers and consumers increasingly get needed goods and services through markets (Nee 2001).

The basic argument lies in that with the process of market transition, the relative advantage of political capital will decline. They believe that in a transitional period political position could maintain their advantages and even expand them, but in the

long run the advantages of political power will nonetheless shift to the new market-oriented private entrepreneurs (Nee 1991,1996). The basic focus of this line of research is on the outcomes (usually defined in terms of income) of entrepreneurs relative to other economic actors in these transforming socialist economies.

However, Nee's theory is ideas and concepts created with the reference of western capitalism, its argument full of idealization and linear prediction of market transition. For instance, market transition is characterized by private property, legal equality, horizontal transaction, voluntary exchange, and price calculation, all of which cohere around the principle of supply and demand. The central planned economy involves public property, bureaucratic hierarchy, vertical transitions, and exchange by central fiat, which coheres around the principle of redistribution in the state structure (Wank 1999). What is more, Nee's empirical research is based on a regression with only 400 cases, which also causes criticism of its statistical reliability.

Facing so many criticisms, Nee revises his thesis repeatedly, from partial reform to hybrid organizational forms. However, he still insists that the discontinuity of political capital will happen in the future. In his most recent work, he admits that "those with political capital and those with market power can both benefit from the market reform, and it is only when market reaches a certain degree of dominance and maturity that the latter overshadow the former in terms of economic advantages" (Nee 2002).

Inspired by Nee's "Market Transition Thesis", the transformation of Chinese

redistributive system to market system has been the focus of debates in academic community ever since then. Nee's Market Transition Thesis emphasizes the role of emerging markets that compete with and undermine state socialist redistributive economy and alter the stratification order. With deeper understanding of market and redistribution systems, researchers become aware that the possibility of the two systems to be integrated in one society and the unpredictability in future development. Therefore, Nee tries to incorporate social institution and structure into his theoretical framework and employ new concepts and mechanisms, continuously revising Market Transition Thesis. "Unfortunately, as these concepts of mechanisms pile up in Nee's arguments, one increasingly loses sight of how they are interrelated and what their implications are for the internal logic of the theory" (Zhou 2000b).

Since mid 1990s, based on the accumulation of empirical researches and progress of statistical models and techniques, two lines of arguments have been developed to refute Market Transition Thesis's claims regarding the declining significance of redistributive power and political capital. On one hand, there is new advancement in previous social stratification frame, in which Zhou Xueguang's article in 2000 is most impressive. Although many researches have been done, most of them are based on the data of rural China. Tests of market transition arguments in the urban context are at an early stage (Nee 1996). In this particular article, Zhou bases his arguments on panel data of 4,730 urban residents drawn from 20 cities in China (Zhou 2000a). One feature that distinguishes this article from other researches on this topic is the author's explicit aim to identify competing processes and their

interactions, as well as to highlight the interconnectedness among these processes and to insist on understanding them in relation to another.

Political Economy

Another approach jumps out of the framework of social stratification and begins to consider the link mechanism and mutual relationship between redistribution system and market system. These two categories do not separate, nor do they repulse each other. Rather, they coexist in a very peculiar as well as subtle way. Moreover, they integrate in local level. They develop alternative conceptualizations of the change processes—local corporatism (Oi 1990, 1992; Nee 1992; Lin 1995), path dependence (Stark 1992), network capitalism (Boisot and Child 1996) and politics of workplaces—that cannot be simply reduced into Nee’s market transition logic (Zhou 2000b).

These scholars emphasize various aspects of the political economy of transformation in which political and economic institutions mold emerging economic institution. They argue that the ongoing transformation processes and emerging economic institutions are circumscribed by and intertwined with existing political, economic, and social institutions. They believe that “socialism” is a special social form with its own institutional logic and motivation of development. Chinese reform will not fundamentally change the existing institutional background and structural frame. They view power as an institutional element of the emerging market economy. Because market reform is from upside to downside, from central to local, the

redistribution power in the old system will definitely influence the results of the emergence of market. Even private entrepreneurs without any prior government position need to cultivate access to officially brokered resources to improve business performance (Wank 1993, 1995b, 1999). They argue that emerging market economies lack the expectation-enhancing institutions of “mature” market economies, such as universal laws and impartial courts. And even if such institutions did exist, many contracts would be unenforceable in courts of law because they entail activities deemed illegal or dubious by the state (Wank 1999).

According to political economy approach, with the development of market, officials, especially local government officials have more financial basis of their power. The impacts of political capital maintain. Previously advantaged groups maintain their advantages by successful conversion of political capital into individual private wealth. They convert advantaged positions into new forms of post-communist privilege. They realize this conversion either by entering the moneymaking business themselves or by providing benefits to certain entrepreneurs to exchange some money (so called “power-money” exchange).

Different from simple observation of power-money exchange, Oi carefully details how county government, the lowest level of the territorial-administrative hierarchy, reacted so positively to the national reform imperative because its economic as well as political interests were well served by supporting the introduction of enterprise and the market. It worked because the party-state at county level was able to turn itself essentially into a business enterprise corporation, and had

the organizational capacity and local authority to change economic structures.

The concept of local state corporatism, in which local officials play a leading role in developing rural areas, is central to Oi's argument, in which she tries to figure out the institutional foundations of Chinese economic growth. Oi's conceptualization highlights the collectivist coordination of economic activity by local governments. They redistribute "profits and risk, thereby allowing the rapid growth of rural industry with limited resources"(Oi 1999:12). However, it also emphasizes the ways in which as economic growth started to pick up pace, local government also encouraged the development of private enterprise, but under its own tutelage. The result has been a corporatism in local areas that ensures a community of interest between the party-state and private enterprise. The key question for Oi then becomes how this relationship will evolve in the future and whether indeed it will even be possible for local government to maintain and this is also my question in this particular paper.

Nevertheless, the local state corporatism Oi describes is about the relationship between local government and TVEs. Oi believes that collective ownership could act as an alternative of individual ownership to guarantee market economy and it provided local authorities with an economic cushion and structured the relationship between enterprises and local governments. For the collectively owned firms, contracting left the rights to the residuals with the village or township government. Situations may be different for the private firms or firms over which the manager has

rights to the residual.

The point of departure of the political economy approach is not monopoly over resources but cadres' economic role in industrializing villages. This account regards power as an institutional element of the emerging market economy. They believe that with the development of market, officials, especially local government officials have more financial basis of their power. Oi maintains that market allocation in an unreformed political system creates new opportunities for patronage and corruption, altering but not diminishing the power and privileges of officials (Oi 1989). She further argues that decollectivization and fiscal decentralization provided party officials of the localities—counties, townships, and villages—with the incentives to act as entrepreneurs and to promote rural industrialization in many areas of the Chinese countryside. As a result, the corporatism practiced by local officials has become effective enough to challenge the centrality of the national state (Oi 1999).

Meanwhile, because emerging market economy lack the expectation-enhancing institutions of “mature” market economies, such as legal system and property rights; it engenders patron-client ties among local actors in state and society to reduce these uncertainties. Clients seek patrons in the bureaucracy for political protection as well as for commercial advantages. They believe that even when such institutions are formed in the future, the previous influence of political capital has already been part of the face.

Their researches indicate that the shift to markets should enhance returns to human capital, entrepreneurship and political position. Specifically, political position is an asset comparable to human capital, and like entrepreneurship it is likely to yield increasing returns as a market economy expands due to the fact that cadres have more usable resources with the expansion of local economy. Rural economic development magnifies the advantages of cadre households (Walder 2002).

Political Markets

William Parish and Ethan Michelson believe that accompanying the process of economical transformation emerged political market. "In the transition, the liberalization of political markets is often as important as the liberalization of economic markets" (Parish and Michelson 1996).

Prior to reform, some groups of workers and industries were privileged in bargaining with management and the state bureaucracy. Due to these historically institutional reasons, there are informal bargaining mechanisms of some workers. So, Inequality in income and social services depends less on the market than on the bargaining power of different social groups.

There is a continuing need to have linkages with state bureaucrats and state-run enterprises. One way to spread risks in an uncertain environment with few well-specified property rights is to include current and former state officials in one's economic network. Once established, these networks may well have a life of their own that provides a kind of path dependence. This continuity, or path dependence,

suggests that entrepreneurs with strong network ties to state firms and state bureaucrats, as sources of raw materials, marketing outlets, and official protection will be greatly advantaged. One should expect continuity rather than rapid shifts in current arrangements. Local administrators may well continue to hold onto considerable local power—not only despite, but because of marketization (Parish and Michelson 1996). That's to say, marketization leads to the continuity of officials' power.

Basically, both political economy and political market accounts hold the view that the power of political capital will continue, and will be transformed into economic capital in direct or indirect ways during market transition.

Summary

Market Transition debate has been ongoing, with both sides adding new concepts and statistically sophisticated evidence into their arguments. The pivotal difference between Market Transition Thesis and Political Economy is whether departures from a centrally planned economy are likely to proceed with or without fundamental changes in the mechanism of stratification. Nee's Market Transition Thesis builds on Polanyi's (Polanyi 1944; North 1981) insight that economies are embedded in definite institutional arrangements. Political market view discussed the internal structure of organization. Will the people have more bargaining power maintain this power over the terms of exchange? Nee insists that market exchange enhances the bargaining power of producers (Nee 2001).

All these researches are intended to pinpoint the mechanism of institutional change. We can see that as a discussion of income determination of rural or urban population, Market Transition debate has almost come to an end. However, the theoretical insights of Market Transition debate are still useful in other researches, especially when considering that transitional mechanism is still far from clear. What's more, the ongoing market transition debate has been focused on the returns to human capital and political position, without distinguishing the subtle process of transition. They have not considered the consequences of other changes, i.e. structural changes. It has no specified description of the transitional process. Technically, it is hard for income determination analysis to separate agricultural income from non-agricultural income. Actually, neither education level nor political capital can really influence agricultural income. This research avoids this problem by tests of returns to different factors on the success of private business.

Up to then, the researches are conducted in the theoretical framework of social institutional transformation, exploring the effects of different variables that decide income and the connected social stratification and mobilization. However, it has been overlooked for a long time that income is but a indirect indicator of the consequence of market transition, which is a complex process including three aspects: decentralization, marketization, and property rights reform at the enterprise level (Peng 2001). "I question whether the focus on the two dependent variables, income and income inequality, is what one wants for social change theory. Can they give us any clue about the shape of emerging institutions? Are these variables linked to any

body of theory?” (Oberschall 1996) The focus of this research—the development of Chinese private economy, is a concrete transitional process with alternative measurement of economic superiority, may contribute and broaden the current debate.

2 NEW CLASS THEORY—FROM A PERSPECTIVE OF CAPITAL

Since coming into being, New Class Theory has aroused a lot of controversies. Although developed by Gouldner's view of the alliance between the technical intelligentsia and humanistic intellectuals, the term “New Class” was initially coined by Michail Bakunin in analyzing the possible social consequences of the Marxist scenario of socialism. It's mainly a theory about the composition of elites in communist countries and the struggles among the different elite groups. Some scholars have summarized the different waves of this theory (Szelenyi and Martin 1988). All New Class theorists claim that post-capitalist society will be a new class society in which a new class, other than the proletariat, will rule (Szelenyi and Martin 1988). But people with what kind of capital are more likely to become members of the New Class? In the following I will briefly discuss New Class Theory's approach towards different kinds of capital and their transformational mechanism. That is to say, intellectuals who own cultural capital, officials who own political capital and technical officials who own both, which part is more likely to

have more privilege in communist system. I will mainly discuss the formation of New Class in socialist systems, leaving its counterparts in western world unconsidered.

Dominating Cultural Capital

This approach is represented by Bakunin and Machajski, the anarchists of the late nineteenth and early twentieth centuries. Bakunin argued that the complexity of the knowledge a socialist government-run economy and society require would inevitably lead to rule by scholars and intellectuals (Szelenyi and Martin 1988). Machajski believed that in socialist society, privilege would be based on the monopoly of knowledge. They contended that intellectual was trying to use the working-class movement to smuggle itself into a position of class power. There will be a new class; a new hierarchy of real and pretended scientists and scholars, and the world will be divided into a minority ruling in the name of knowledge and the immense ignorant majority (Szelenyi and Martin 1988). The socialist society that will emerge would be an inegalitarian as capitalism is, except that here privilege based on private capital ownership will be replaced by privilege based on the monopoly of knowledge. That is to say, the privilege of economic capital will be replaced by the dominance of cultural capital. Cultural capital can bring political capital. Those who have cultural capital can also have political power. What Bakunin and Machajski worried about is that this New Class will abuse this power. They will only serve the interests of intellectuals, having no contribution to the emancipation of

the manual workers. However, they failed to predict the failure of this New Class movement. The result of Marxist revolution is a dictatorship of the Stalinist bureaucracy rather than class rule by “socialist scholars”.

That’s exactly what happened when communism firstly originated. Taken China as an example, the CCP was originated by a group of left wing intellectuals. But up to the time when the People’s Republic of China established, the intellectual temperament had been removed (Gao 2000). In the following socialist reconstruction, the intellectuals suffered from a series of political movements, then coming to the extreme point of the Cultural Revolution, in which intellectuals encounter the most grievous persecution.

Dominating Political Capital

Djilias systematically analyzes the birth of the New Class in his famous book *The New Class*. He argues that modern Communism began as an idea with the inception of modern industry. It flourishes in those countries where industrial development has not yet happened. To fulfill its goal of industrial revolution in a backward country, especially if it has no assistance and is hindered from abroad, the revolutionary party must concentrate all domestic resources in its own hand. Nationalization of industrial property and the land is the first concentration of property in the hands of the new regime. However, it is the bureaucracy who formally uses, administers, and controls both nationalized and socialized property as well as the entire life of society. The role of the bureaucracy in society consigns it to

a special privileged position. The abolition of private ownership was a prerequisite for industrialization, and for the beginning of the new class. However, without their special role as administrators over society and as distributors of property, the Communists could not transform themselves into a new class, nor could a new class be formed and permanently established. Depending on the position they held on the hierarchical ladder, the new class obtained the best housing, automobiles, and similar evidence of privileges.

The state-bureaucracy constituted as the new dominant class. Those who hold structural position have political power as well as advantages in all aspects. The base of the class power of the managerial technocracy lies in its collective ownership of the means of production.

This is the story when the Communist parties set up their own regime and begin to establish the social-economic system to fulfill their goal of industrialization in backward countries. Political capital can bring advantages in all aspects of social life. In China, this period is from 1949 to 1966, the launch of the Cultural Revolution. By the eve of the Cultural Revolution, Communist China had witnessed a process of bureaucratization. This bureaucratization went to such extent that what Djilas described came true in China. Maoist intervention through the dramatic movement was a kind of charismatic breakthrough from the bureaucratic routinization. It is said that the Cultural Revolution is an anti-bureaucracy movement, in which the “mass”, who are underprivileged whether in social, economic or cultural senses, fight against the privileged authorities who held positions in the bureaucratic hierarchy (King

1977). Although it is a tragic in Chinese history, it did weaken the bureaucracy group.

Dominating Teleological Knowledge

During 1970s', the intelligentsia in Central Europe, by virtue of its monopoly over "teleological knowledge," formulates claims for class power, and in the post-Stalinist epoch there has indeed been a trend for the bureaucracy to open up, and join forces with the intelligentsia into becoming a new dominant class. A new type of knowledge (adversary culture, teleological knowledge, cultural capital, etc.) is gaining ground and the possessors of this knowledge are in a radically new relationship to domination. It is assumed that the possessors of this new type of knowledge can now make an autonomous bid for power. In the meanwhile, bureaucracy attempted to use technology to legitimate itself and try to promote engineers into bureaucratic positions. Based on the socialist redistributive systems, economic power, political power and cultural capital can be combined with each other and interchanging became very common. Knowledge is the media of intellectuals to mobile between different administrative positions.

There emerges a new class composed of intellectuals and technical intelligentsia. The revolutionary intelligentsia can substitute itself for the proletariat and emerge from the revolution as a new dominant class. The increasing power of the technocrats and scientists derive from the type of knowledge it possesses. "We argued there that the intelligentsia in Eastern Europe, by virtue of its monopoly over 'teleological

knowledge,' formulates claims for class power, and in the post-Stalinist epoch there has indeed been a trend for the bureaucracy to open up, and join forces with the intelligentsia into becoming a new dominant class" (Szelenyi and Martin 1988).

This wave of New Class theories explores the changing nature of knowledge. A new type of knowledge is gaining ground and the possessors of this knowledge are in a radically new relationship to domination (Szelenyi and Martin 1988). However, technocrats were still finally defeated by the bureaucrats. For example, in China there is a dual path for bureaucrats and professionals (Walder 1995b).

Reunification of Cultural Capital and Political Capital

With the spread of managerialism, In *Making Capitalism Without Capitalists*, Eyal, Szelenyi and Townsley explore the class formation and elite struggles in post-communist central Europe. They believe that the social attributes of actors, their class capacities, and the historically contingent outcomes of struggles between them, are likely to be decisive for explaining the particular kind of capitalism that is being built in Central Europe.

They conceptualize pre-communism, communism, and post-communism as three different stratification regimes defined by the dominance of different types of capital. And post-communism is a historically unique system of stratification in which cultural capital is dominant. Further, the transition to post-communism is a shift from socialist rank order to capitalist class stratification. Converting devalued forms of capital into new, more valued forms is the preferred way individuals cope

with changes in social structure. They also argue that one is usually in a much better situation to convert a devalued form of capital if one is already well endowed with a revalued type. That's to say the former elites are more likely to become new elites than others. Those who have both cultural capital and political capital, technocrats in Central Europe, are mostly privileged in a post-communist society.

They define capitalism as a class-stratified system in which economic capital is dominant, and communism as a system in which social capital –institutionalized as political capital —was the major source of power and privilege. With the decay of state socialism and the rise of post-communism, the importance of political capital is declining, the role of cultural capital is increasing, and economic capital is sufficient only to locate its possessors in the middle of the social hierarchy.

These ideas are very profound and with deep insight. Nevertheless, that may be the case in Central Europe, but not exactly the same in China. China is different in at least three aspects.

Firstly, the transition to capitalism was undertaken in the context of a relative highly developed “civil society”. They describe the advantages of civil society as a discourse in transition. However, as have been widely discussed for a long time, China has yet to become a civil society (Deng 1996, 1997; He 1998; Chan and Qiu 1999). There is no social space or basis for different kinds of elite groups to bargain or reunite. Developing market economy in an environment that civil society has grown to certain degree, the previous elites, dissenters and market elites have effective channel to negotiate, which is not Chinese case.

Secondly, their book lays particular stress on the behavior of former elites in transition. In their discussion, the struggle and liaison of elites' power form the new social structure. Different capital owners fight and reunite to find the best solution of their future. In China, a certain percentage of private entrepreneurs are at first out of the system³, they were by no means elites in the old system. What's more, Central Europe has no systematic dependent relationship as in China.

Thirdly, "The unique feature of East European development after 1989 is that it does not simply allow or encourage the growth of new private sector. In all East European countries, the privatization of the public became state policy after 1989. In China the public sector is maintained" (Szelenyi and Kostello 1996). Actually, not only public sector is maintained, private sector's legal existence is but gradually confirmed. In a long time, private business has to wear a "red hat" for protection. As discussed in Chapter 2, their environments are unstable and full of turbulence.

With all these differences, does China's transitional process have the same mechanism and outcome as Central Europe? The answer is quite suspicious. This research will try to identify the distinctive characteristics of China's emerging private sector, by reference to China's business system and markets, transitional structural change, and government within that system.

3 CLIENTELISM

³ Survey data show that 2/3 private entrepreneurs previously are farmers, ordinary workers or unemployed.

Dependent Clientelism — Walder and Oi

In the classical work *Communist Neo-traditionalism: Work and Authority in Chinese Industry*, Walder firstly presents the term “clientelism”. Based on the theme of rational choice, he analyzes social control in the intricate work-unit system of China and explains why there were so many activists participating in political movements and extra productive work. He deems that on the one hand, there are strict political controls in the units. On the other hand, because workshop directors have redistributive power for many welfare and works, many people try to cultivate a special clientelist relationship with these cadres to get better treat. “Party branches develop stable networks of loyal clients, who exchange their loyalty and support for preference in career opportunities and other rewards. The result is a highly institutionalized network of patron-client relations that is maintained by the party and is integral to its rule: a clientelist system in which public loyalty to the party and its ideology is mingled with personal loyalties between party branch officials and their clients” (Walder 1986:6). From Walder’s view, before reform, the state impels political movements and collective production by coercion in work unit (Danwei) system (effective to all the workers) and selective encouragements (effective to activists only) (Walder 1986).

Correspondingly, Jean Oi analyzes the relation between the state and peasants in rural China. Previous researches of political participation point out that the formal channel of meaningful participation is very weak in developing countries; individuals mainly rely on informal network based on personal relationship to pursue their own

interest. Based on these conclusions, Oi focuses on how personal relationship influences the goals and products of state policy. She comes to a conclusion similar to Walder's: there is clientelist relationship between farmers and village cadres. She describes the concrete forms of clientelist tie in a planning economy society strictly controlled by equalitarian ideology. She believes that in village level of socialist society, the communist system works by assuming clientelist ties that have maximum profit rather than minimum risks.

Both Walder and Oi take an institutional position on clientelism. Institutional analysis is most definitely borne out by elite studies. For Walder, patron-client relations within the work unit (*danwei*) is a response to the situation where powerful officials controlled access to scarce, rationed necessities such as housing, non-wage benefits, and even promotions (Gold, Guthrie and Wank 2002). The clientelism they uncover is in the state-socialist China before reform, an interchanging process of political loyalty and economic benefits and used as a strategy in the prior command economy for citizens to deal with shortages and inequalities by influencing officials' allocation decisions. This clientelism is featured as dependent in a totalist society. Relations between patrons and clients were stable over time. Clientelist networks also created social cleavages between clients and non-clients, inhibiting the development of organized opposition to the state (Wank 1995b). What happened to this clientelism described by Walder and Oi as neither traditional nor inherent to Chinese society in the great changes of China's market transition process? Now that it is related to specific institutions, will it decline due to the institutional changes?

Symbiotic Clientelism

In his research of private entrepreneurs in Xiamen, Wank continues the discussion of clientelism. He states that the revival of private economy has not resulted in the decline of clientelist relationship. On the contrary, it causes a new commercialized type of clientelist relationship, the nature of which is symbiotic trade of commercial wealth and political power. Wank focuses on the ways that entrepreneurs have aligned themselves with state agents to create a political economic coalition between the private economy and officials in the transforming economy. The relationship Wank describes here is no longer patronage relationship, but symbiotic. Officials exchange political power for economic benefits and businessmen exchange economic capital for political protection. Wank further makes the case that the more marketized regions of China have not eliminated clientelism, as some had predicted, but on the contrary, had just marked a “transformation within a clientelist political order” (Wank 1995b).

Clientelist transacting arrangements change with the growth of private firms. The attainment of a certain threshold of economic capital accumulation generates a shift in a private company’s emphasis on patron-client ties to facilitate further growth (Wank 1999). He proposes a new concept—symbiotic transaction—to describe this new relationship. The clientelist ties through which private business operates differ from pre-reform clientelism not only in new commercial calculations but also in changing dependence: citizens’ dependence on officialdom is much reduced as

officials and local governments are increasingly dependent on entrepreneurs and their firms for certain resources (Wank 1999).

He argues that the reason for the existence of the new clientelism lies in the administrative function of the government. The businessmen need official assistance to get access to licenses, resources, venues, protection, and other favors, while the officials need the businessmen to stimulate the economy to demonstrate the official's competence in the new reform environment.

Thus, rather than a chaotic and liminal stage of a "partial transition" that is neither market or plan, we can see the deepening and institutionalization of a market economy organized through an equilibrium in which competition consists in good measure of capacity to obtain particularistic support from state agents in commercial endeavors. The symbiotic clientelism in which private business operates not only reflects the utility-maximizing interests of entrepreneurs and state agents but also constitutes broader economic and political structures. For entrepreneurs, these ties are of ongoing benefit, even as the earlier emphasis on profit seeking in public assets controlled by the bureaucracy gives way to enhancing security and information through ties to local governments. The ties are also innovations by which local governments obtain support, enabling them to forge new links to the market economy, which, in the southeast region, include links to the financial capital of Chinese overseas. These strong local webs of affiliation are development coalitions that heighten the autonomy of locales from the center and the bargaining position of certain societal economic actors vis-à-vis local state agents (Wank 1999).

Wank amply describes how the symbiotic clientelism works and its relationship with China market reform. He believes that the success of China economic reform is not due to different communist tradition compared with other post-communist countries, nor gradual reform, but because of clientelism. However, Wank fails to explain why previous institutional culture leads to clientelism. He takes it as an obvious presupposition.

Another problem of Wank is that he is used to supporting his arguments with illegal opportunist activities. In his book or articles, he emphasizes rent-seeking, bribing and corrupt activities. The personalized “power-money” exchange is only informal strategies. If we stop our discussion in this level, we will fail to detect the ongoing structural change. Based on Wank’s logic, there will be no possibilities of routinization of China transitional society. Empirically, there will be no end to corruption. So, it is necessary to reconsider Wank’s conclusion as well as his standpoint.

Organizational Clientelism

In his 2002’s paper “Business-State Clientelism in China: Decline or Evolution”, Wank differentiates different ways of getting political connection. In addition to pull *guanxi* (*la guanxi*), he dwells on reputation (*mingyu*) and localistic networks, which are alternative, sometimes more effective and less time-consuming ways to gain government support. He further points out that there is new organizational local network between firms and bureaus. In localistic network, the coordination between

private firms and government bureaus is as part of the broader agendas and policies of the bureaus rather than as the isolated actions of single officials to circumvent standard procedure on behalf of entrepreneurial clients. Private businessmen do not seek to influence individual officials to make non-standard decisions; links of locale are organizational support from bureaus through the routinization of non-standard administrative procedure in bureaus' daily operations. This is not a case of scattered officials supporting entrepreneurs by making deviant decisions to favor them but a case of entire bureaus defining their practical policies and operating procedures to support private firms in ways of varying legality.

He points out that although clientelism may have no use in transactions between buyers and sellers, it does have effects on key processes as market entry and contractual enforcement.

From symbiotic clientelism to organizational clientelism, Wank presents a picture in which political connection plays a central role. He believes that as a new private economy emerges, clientelism is not abandoned. Instead, it has more basis of existence in the market economy environment. Guanxi practice may decline, but clientelism can be conducted in other forms and maintained to form the characteristics of Chinese market economy. He realizes the shift from personal to organizational clientelism. However, he still believes that these activities have no defined rules. At least he has not figured out the logic behind the formation of the networks, on which the organizations build. The example in his article—Fairwell (Yuanhua) Group, is notorious as the largest illegal interest group in China. The

organizational clientelism Wank describes is still part of speculative activities that cannot be institutionalized.

4. SUMMARY

In this chapter I try to distinguish three approaches about political capital. First, I try to identify three different types of argument in Market Transition debate, demonstrating where the strength of each theory lies and particular insights one can gain from them. The main concern of Market Transition debate is whether political capital can maintain its privilege. It examines the structural aspect of institutional change, whether the previous political order will change. Second, I retrospect the development of New Class theory. It focuses on which capital has the most advantage and the transformation and combination of capital. Third, Clientelism examines the internal structure of institutions in market transition, the relation between people who have and who do not have political capital.

Although from different perspectives, the core question of all these three theoretical approaches is: whether political capital could maintain its privilege during market transition. While they all generally agree that political capital is the most essential feature of previous political order, their views vary on the extent to which political capital is shaped by institutional contexts and on its future in the reform era. Market Transition approach debate over this question from the structural views. Nee believes that entrepreneurs groups and individuals who were formerly barred from

advancement in the state socialist bureaucracy and economy gain chances for social mobility through emergent labor markets and private entrepreneurship. The growth of market institutions causes a decline in the significance of socialist redistribution power even in the absence of fundamental change in the political order. Dependence on the established elite declines.

Political economy approach believes the previous political order will not change. According to proponents of this perspective, the initial advantages of the redistributive elite are such that this elite will come to dominate the post-socialist stratification order. The old redistributive elites occupy strategic positions in political markets, which enable them to adapt flexibly to emerging markets and capture a disproportionate share of the rewards (Walder 1996; Rona-Tas 1995; Parish and Michelson 1996). Former cadres were best placed to convert state-socialist privilege into economic capital. Initial elite will come to dominate the post-socialist stratification order.

For the proponents of New Class theory, intellectual elites, especially those have both political capital and cultural capital will become the new elites. They concern about the elite structure, seeking the agents of new elite group. Clientelism believes there emerge a new political order based on the cooperation between new market elites and previous political elites, who become the most privileged part in the transitional process. They try to illuminate how such maintenance was achieved.

CHAPTER 4 PRINCIPLED CLIENTELISM

——PRELIMINARY EVIDENCE FROM IN-DEPTH INTERVIEWS

In existing literature, it is believed that the characteristics of China's transitional economy are weak capital market structure, without clear property rights or institutional instability. Previous researches indicate that the more instable the outer environments are, the more dependent will the enterprises be on informal connection to gain resources and protection. This is so-called structural support. Compared with SOEs and TVEs, the new-rising private enterprises are more likely to be subject to the harrying of government departments. It is also more difficult for them to get resources. To seek protection or to get the resources unavailable in market, such as loan, low-cost raw materials, private entrepreneurs have to conduct rent-seeking activities. They develop personal relations with government officials to supply the gap of formal institutions. However, with the development of market to the extent that almost all the resources can be accessed in market, the establishment of legal system and the supporting attitude of central government, why private entrepreneurs still try to pull guanxi with officials? Maybe they have given up rent-seeking activities? Or has the direction of relation changed due to the change of strength on both sides? As Wank understands, clientelist network is a stable structure composed

of people's consensus on social trust. This new relation is different from traditional clientelist relation because of the fact that the power of both sides has switched. Local low bureaucrats and private entrepreneurs achieve new cooperation on the base of interest convergence, leading to so-called symbiotic clientelism.

This research borrows from these theoretical traditions, but differs from and builds upon them by imaging the presence of principled clientelism. How private entrepreneurs can survive and prosper in an economic system with neither protection of property rights or capitalist institutions. Here is the endeavor to figure out what agents are building Chinese private economy, and on whose behalf and for what purposes they act.

1. LOCAL GOVERNMENT AS AGENT

In previous researches, government officials were conceptualized as patrons, or portrayed as preyers. But these are not what I saw when doing fieldwork. My interviews were mainly done in Shengzhou City, located in the east of Zhejiang Province and known as the "Home of Necktie". The yearly necktie output reaches 200 million, accounting for 80% of the yearly necktie output of China. It is only about 3 hours' drive from Shanghai, and about 1.5 hours' drive from Hangzhou, Ningbo or Jinhua.

When I arrived at the small city, there was a movement originated and led by local government called "Excellent Investment Environment". The main purpose of

this movement is to attract more business opportunities and investment for local enterprises. The CPC Shengzhou Committee and Shengzhou People's Government formulated series of policy documents including "Finance Supporting policies", "Favorable Policy For Land Use" and "Policies For Agricultural And Sideline Products Intensive Process".

It seems that government does all these for the good of the whole local economy. But actually, only a group of selected enterprises can enjoy the benefits. Government's protection and service are not equal to every enterprise. In recent years, Government shifts its emphases to the propping up and breeding of "main enterprises". What is more important is the change of principles behind. If there was actually rent-seeking activities and patronage relationship based on social network at the initial period of market reform, the propping and breeding policies now are more institutionalized. This research indicates the conversion of local administrative departments.

Incentives

Local officials are rational actors who respond to incentives and existing constraints within the limits of their cognitive ability to evaluate alternatives and process information. With decollectivization and fiscal reform, local officials at the county, township and village levels were given incentives to generate new sources (Oi 1999). Officials' salaries and general economic well being depend on the prosperity of local economy.

In a communist system, local officials have what Murrell and Olson call an “encompassing interest” that is much stronger than that held by officials in democratic regimes to make their economy grow rapidly. In such situations the person with dictatorial power has “a property right in his society”. Just as the owner of a firm, they have an incentive to make the firm as valuable and productive as possible (Oi 1999). So, local governments have the incentives to serve as promoters of private industrialization. Not just the local populace’s prosperity but also a good part of the village-level revenues depend upon this (Unger and Chan 1999). Central government sticks to the “Economy centered policy”. The annual cadre evaluation determines local officials’ chance of promotion. Officials need their economic achievements to get political reward from the party state. It is in economic development where the central policy is compatible with local interests. Local government officials hustle to help develop private enterprises far more than others⁴. They become agents of the development of local economy.

In recent years, the market competition becomes intense. The period that whatever you do, you can earn money has gone. Enterprises have to rely on whatever they have to survive. The plights faced by enterprises and the consequential problems make local officials intercede economic activities more deeply in the name of “center on economic development”. They become active actors of market economy and thus maintain their influence of economic domain. It is a reasonable way of government to execute its economic administration function in the condition of lack of property

⁴ At first, local governments relied on TVEs which they have claims for residuals. But in recently years, with the decline of TVEs and debt crisis of TVEs, TVEs are experiencing a “property rights reform”. A lot of TVEs take off their “red tap” and register as private enterprises.

rights obligation.

Resources and Services

Local governments have lost their control of rare sources and they do not own the enterprises either. They have no rights to the residuals of private enterprises. But they still have other sources that are usable to control private entrepreneurs. Local governments have changed their role of regulator into provider of collective service.

(1) Credits

In the earlier years of reform, governments control all the important original resources and energy. Nowadays the situations have been greatly improved. But governments still have the absolute control of credits. It is impossible for private entrepreneurs to gain any loan without the support of governments. To come into the market to collect financing, enterprises also need the permission of government departments.

Governments control banking institutions such as government support funds and savings and loan cooperative. They can decide loan money to which enterprises. Usually they provide some loan for those who need the first bulk of money and to those they deem as contributive to they plan of local economy. For example, the Shengzhou People's government decided that agriculture related industries are important to the further development of local economy. When private entrepreneurs who want to open a factory in that area apply for government loan, they will be given privileges.

(2) Administrative power

Although these are private enterprises, government officials are still able to control them and intervene their direction of growth. They choose certain goals and projects that have privilege over others, relegating to certain private enterprises. Using their administrative power, officials create opportunities and provide political legality to these enterprises.

They could use their control of bureaucratic inputs, for example licensing, entry permission and product certification. Tax breaks and loan deferrals are also effective ways to control enterprises. Nevertheless, these methods are more often used as deterrent to punish enterprises they regard as not cooperative. For example, in Shengzhou there was an enterprise owned by a family. The owners refuse to join a contact made by the Economy and Trade Department. Days later they had to face a tax checking and were uncovered that they had evaded tax for years and the amount added up to 750,000. Including fine, they had to pay more than 1,000,000. Checking tax is one of the most effective ways of severely suppressing the enterprises they deemed as illegal.

(3) Authority

When trust becomes an important factor of expanding trade, private enterprises are underprivileged because they lack the basis of credibility. Their transnational or transregional social connection is especially poor. As public authority, local governments offer a premium of trust. They become an authoritative intermediate. Although governments have never act as a direct part of economic cooperation, it is

undeniable that their participation provide a reliable guarantee.

Making collective contracts is a good example. They seek order contracts for the entire village to make certain items and individual households perform specialized tasks necessary to produce the finished product. Instead of directly participating in the market as individuals, the village contracts with larger corporate organizations. They use their control of collective contracts and resources to bring the private sector into the corporatist fold (Oi 1999).

Local governments also establish transregional and transnational connection for local enterprises and act as intermediate of enterprises' transnational or transregional expansion. An official told me that whenever he was on business trip, for example, to Shanghai or Hong Kong, he would take any chance to recommend the enterprises of Shengzhou to relevant entrepreneurs. He does it in the request of local government rather than entrepreneurs. The Shengzhou entrepreneurs even have no idea of that until the Shanghai or Hong Kong enterprises contact them for business cooperation.

They also provide favorable policies for transnational cooperation. For example, in Shengzhou they have this policy: the new foreign-sino joint enterprises, foreign-sino cooperation enterprises and solely foreign-owned enterprises will share full allowance of the local left part of the income tax for the first three years, and in the next two years, 50% of for allowance. For the domestic investment enterprises from outside Shengzhou, they will also share the favourable policy as follows: Productive projects between 30 million and 50 million RMB yuan share one year's full allowance, and the second year 50%. Productive projects between 50 million and 100 million RMB yuan share two years' full allowance, and then 50% for the next three years.

(4) Information and Technology

The bureaucracy is an information grid where government officials are the primary nodes in the network that provides information to local enterprises, especially about central state policy change. Additionally, local government officials actively sought cooperative relationships for their rural industries. They also arrange and join all kinds of product exchange conference to get more information of new technology to improve the quality of local enterprises.

Table 1 summarizes the sources and service provided by local governments. Using a combination of inducements and administrative constraints characteristic of a state corporatist system, they manage to promote the private sector while at the same time preventing it from becoming an economic elite over which they had little control.

<Table 1 here>

Who Are Chosen?

Government officials are no longer protectors of private business based on personal ties, nor blackmailers to innocent private entrepreneurs. They are also more than regulators⁵. They actively sought cooperative relationships for their rural industries. They selectively target certain enterprises for development. Assistance are no longer given equally or to all.

⁵ In mature market economy, governments are mainly regulators.

On one hand, governments select some of the most influential enterprises (based on their ability in manipulating market) to interpose management. Enterprises more likely to receive this assistance are those deemed most profitable, competitive and expanding. Through their participation, government realizes its management of the whole local economy. Supports are also offered to industries that are not profitable but contribute to social interests such as the provision of employment for the village's surplus labor.

Another important part is to provide special favorable institutional environments for the projects or industries they regarded as important. In Shengzhou, they believe the industrialization of agriculture is important, so they have some policies for agricultural and sideline products intensive process. Foreign investment projects for the agricultural and sideline products intensive process in the Economic Zone can share the land price 80,000 RMB yuan per mu and meanwhile they can share the favorable policy for land use for foreign investors. Besides, they can also share the favorable policies for production, daily life and services. They also have "Special Promises From The Bureau of Agriculture".

On the other hand, as for the smaller enterprises, local government chooses to neglect them unless they disturb the normal order of market.

2. PRIVATE ENTREPRENEURS AS CLIENT

Even in a fully developed market economy, large corporations are enmeshed in

a complex system of financial institutions, business services, accountants, advertisers and market researchers, employment agencies and headhunters, subcontractors, franchises, newsletters and information analysts, etc. which is now largely missing in China and other socialist transition countries. Though missing as discrete organizational units, the functions associated with these institutions are performed by party-state cadres and officials and new-style wheelers and dealers in the parallel horizontal transition system (Oberschall 1996). The handling of political issues such as taxation, finances, bank lending, and investment, puts added requirements on the skills of entrepreneurs. Lacking a well-developed democratic system in which their views can be heard by government, the entrepreneurs must resort to a variety of methods to advance the economic causes of their villages or enterprises (Gilley 2002). What's more, at first there were a lot of spaces for new private business, but now market competition becomes more and more intense. Free tiny company competition has been transformed into cooperation competition. All kinds of social forces try to reunite to defend and reserve a better position of their own. So, although the market environments in China have improved a lot, private entrepreneurs still find it important to utilize political connection.

Researches have examined the ways that entrepreneurs have aligned themselves with state agents to create a political economic coalition between the private economy and officials in the transforming economy (Wank 1999; Hsing 1998): 1) Pull Guanxi; 2) Reputation (for example, the Prince's Party); 3) Try to expend their own enterprises and make them in the same direction with government's goal, to attract officials' initiative connection.

The first two ways have been discussed a lot in previous literature (Wank 1995a, 1995b, 1997). The cost of establishing political connection has also been mentioned

before. For example, to pull *guanxi*, entrepreneurs spend a lot of time and money in establishing personal ties with local or higher officials. Using reputation as political connection is the most effective and least costly, but it depends on whether you “have a good father”. Only those who have ascribed or primordial political capital can utilize it. Not everyone can fulfill this requirement. I will discuss the last way in this study. I will show that this newest way of getting political connection is not only effective, but also less costly. It is based on a new kind of clientelist relationship between government officials and private entrepreneurs.

Political capital results in the differentiation of the entrepreneurs’ economic achievement, which further lead to different strategies. It is found that the difference is according to the capital they own, both economic and political (Tsang 1996; Tan 2001). I also find that the owners of small enterprises and larger enterprises are significantly different in many aspects such as: personal background, the strategies they assume when dealing with government and their general attitude toward important social facts.

Personal Background

When we talk about personal background in China, there are usually two things referred to: education and previous position in the CCP or in commune system.

A. Larger Enterprises

All the entrepreneurs of larger enterprises I interviewed have university education and high position in the redistributive system. Usually they joined the CCP before they began their own business, but have actually left the Party for a long time. For example, Lin, the owner of the largest and most profitable tie-making company,

graduated from Zhejiang Agricultural University, and was an administrative staff of a town-owned enterprise before he set up his own business. He began to prepare his ties-producing enterprise in 1993.

Another female entrepreneur——Yu, together with her husband, graduated from Zhejiang University, which is one of the best universities in China. She told me that she and her husband became quite famous in Zhejiang province when they decided to leave their previous company and began their own business. She said:

“Our resignation arouse a hot discussion and argument in media for a long time. Zhejiang Daily published a report titled ‘why excellent young factory managers resign?’”

Now the air-conditioners produced by their factory has become one of the most famous brands in Zhejiang province. They also have longevity in the CCP. But she admitted that they haven’t attended any party activities such as political studies for years. That means they have estranged themselves from the CCP ever since they became private entrepreneurs.

Zhao, who is the owner of a company producing electronic equipment, graduated from The University of Electronic Science and Technology of China in 1990. He joined the CCP when he was a university student but was expelled from the Party in 1989. He said:

“When the movement began, I was among the first students to go to Beijing to support them (the students in Beijing). The party leader took me as a bad example because I took a bad lead. So they expelled me after 1989. And I never have any interest to rejoin the Party again.”

B. Small Enterprises

Entrepreneurs of smaller enterprises usually do not have university education, and previously work as common workers rather than cadres in collective-owned enterprises. For example, Qian, 40 year old, is the owner of a company producing silk. He replaced his mother's position as a worker when he was still a senior high-school student, which means that he had no chance to finish his high-school education. At first he worked in his mother's work unit (*danwei*) as an administrative staff. After 1989, when nobody wanted to do sales and marketing, his superior persuaded him to take the responsibility. After six years sales and marketing experience in the town-owned silk factory, he resigned and began his own business.

Mrs. Sun and her husband are owners of a factory producing ventilators. They have never joined the CCP and have no interest in doing that. They worked in a state-owned enterprise as technical workers before beginning their own business. They have no university background. Their technique came from their work experience in previous work unit (*danwei*). At first they did all the work themselves at home and usually they did some processing jobs for other factories. When more and more work is coming, they felt they were out of hands and began to employ some workers. After accumulating some money, they set up their own factory.

Communist system is a system in which social capital—institutionalized as political capital was the major source of power and privilege. With the decay of state socialism and the rise of post-communism, the importance of political capital is

declining and the role of cultural capital is increasing. Based on Nee's market transition thesis and the personal background information of these entrepreneurs, we can arrive at the following two testable hypotheses:

Hypothesis 1: Cultural capital, measured by formal education, has positive effects on private entrepreneurs' assets.

Hypothesis 2: Correspondingly, the impacts of party membership are declining.

Strategy

Under conditions of expanding markets, economic actors strive to institute new rules of competition and cooperation that serve their interests, both through informal arrangements and through formal institutional channels. In order to survive, private entrepreneurs have developed a diverse range of strategies to navigate the political and economic uncertainties of post-communism. Probably the most prevalent managerial strategy was an attempt to stand on as many legs as possible. Some of them use economic strategies, some of them use political ones, and some of them use their relations. In my field work, I find that larger enterprises generally assume a strategy of "you seek and find" and small enterprises assume a strategy of "avoid and wait". The basic principle of choice is minimum cost, or owners' expectation of return to their investment.

A. Larger Enterprises

Larger enterprises usually do not say no to government's initiative approaching

activities and actively join associations to promote their influence and political status. For example, Lin, the entrepreneur mentioned above, said that:

"I prefer to keep low key and seldom contact the government or newspapers. But government officials always want me to imburse them. For example, my enterprise is the main sponsor of the annual Spring Festival party for years. Usually I do not refuse them. It's necessary for us entrepreneurs to redound upon society. This city is small and there should be someone to take the responsibility. So the larger enterprises with better financial condition should do something. I also promote the reputation of our brand by doing that. Because I am famous here and I also have a good reputation as well as a good relationship with government officials, they also do me some favors. If we have any problem, they will not harrow us. As long as the problem is not very serious, they will let us pass. And they also provide development opportunity for us. Government officials also want us to do well. We have almost the same goal. I have good relations with many officials. As you may have noticed, the government is leading the 'excellent investment environment movement'. The intention of this movement is to attract more foreign capital to invest in local enterprises. And that's exactly what we need to further expand our company. They also want to develop local economy. We help each other a lot. I do my business smoothly, without any obstacle. I am a party delegate for years and have the opportunity to speak out my opinions. The government needs my cooperation."

Yu, the expressive female entrepreneur told me:

"I have been elected People's Representative and party delegate for five years

and have submitted many proposals. In earlier years, I can't register my enterprise as private. We wore a red tap. But the red tap is not good for our development. We have to locate our factory in a small village. The transportation and other communication were poor. Now we are private. In a bigger place, there is more space for private enterprises. Actually we are considering moving to Hangzhou⁶. But what I want to say here is that the status of private entrepreneurs has greatly improved. The people's Representative thing is nothing but a symbol of political status. I believe that private entrepreneurs do more contribution to the society than civilians, but our status are lower than them. That's unfair. So when I was elected people's Representative, I regard it as an opportunity to say something."

These cases illustrate that in China successful entrepreneurs are being viewed as necessarily suited to political office because of their economic success.

Before I interviewed her, I was told that she was very active in Women's Union. She is an exemplar figure of successful women set up by Women's Union. When I ask her about this, she said frankly:

"I have a very good relation with the Women's Union. Although I don't need Women's Union's help, they did make me famous. You know, our products are for house use. We should be well known. My reputation saves my enterprise a lot of money. We don't need to spend too much money on advertisement. Advertisement is extremely expensive. Newspaper and TV program report my stories a lot, that makes my enterprise and products famous too. Usually a large enterprise has high status

⁶ The largest and capital city of Zhejiang province.

here and government officials also hope us to success. We got some of our projects with the help of some government departments, accompanying with some officials in charge of economics of external communication.”

Setting up exemplar figures is a routine of Women’s Union for a long time. That means it is an administrative task and part of their annual routine work. It is Women’s Union’s responsibility to set up some exemplar figures to show the improvement of women’s social status and to inspire other women. The cooperation between Yu and Women’s Union cannot be regarded as a rational exchange based on economic reasons. But they do have what is desirable for each other. As Yu said, it just comes naturally. What is happening in other government departments is just the same. All the entrepreneurs of larger enterprises have mentioned their experience that officials help them to find new opportunities or to get projects. In some of these projects they even use the government’s resources such as access to land and communication channels. Most importantly, local government provides reliability and trust for these unknown private enterprises. To develop local economy is the most important task of local government. It is also the most important indicator of an official’s achievement to get promotion.

All the entrepreneurs I interviewed said that the officials dared not blackmail them. Rules and regulations are established and followed strictly. So their good relationship and cooperation is no longer direct power-money exchange based on personal economic interests, but rather collaboration between two powerful groups in nowadays China (Sun 2002a). Moreover, government officials have more motivation

to initiate the relation rather than entrepreneurs. As Lin and Yu said, they never tried to get involved in any political activities, nor did they seek influence other than economic ones. They regard the success of their own enterprise as the most important and essential goal. "Success" was defined as to increase business scale. But officials and media keep approaching them to make them famous. Large enterprises invest more money in political connections. They will not refuse when government officials ask for help. Therefore we have another hypothesis.

Hypothesis 3: Social investment has positive impacts on productivity of private enterprises.

B. Small Enterprises

Small enterprises have the tendency of avoiding the political domain and trying to create their own space. Qian said that:

"You cannot regard government administration as harassment. It depends on how you deal with them. The core point is that you must have sound reasons. Usually I argue with them if they treat me biased. But nowadays they are less likely to do so. In most cases there are rules or regulations they have to rely on. And we try to avoid any direct conflict with them. If they come, they are superiors. Of course I will give them anything, such as documents, certifications, they want to inspect. But I will not company them myself. I ask other lower staffs to do it. I will treat them a lunch or dinner, using my enterprise's budget. But that's all. No extra money or presents."

When asked whether he has friends from government. He answered:

"You know, our company is not that important. It's not necessary for officials to know or to have a good relationship with us. And I don't like making friends with government officials if I didn't know them since my high school days. Yes, I have friends in government, but I knew them before they became government officials. I do not make extra efforts to know more government officials. It's not necessary. And I don't like government officials. They are different from us."

He also admitted that knowing politics was important. *"If you want to success in your business, you must understand politics, especially policies of the central government. You must have political sense. I was puzzled: what model on earth were the central government want to support? The Wenzhou model or the Sunan model? I still didn't figure it out. **But it doesn't matter.** I believe that I have to do well with my enterprise. So when I was asked to set up a party branch in my company in 1998, I refused to do so. I told them that I have no time, nor have my employees. We are too busy."*

Although he cares about policies, he assumes a soft non-cooperative attitude toward political requirements. When he was requested that he must establish a party branch in his enterprise, he did so. But he himself acts as the chief secretary. He told me that:

"Now we have Work Union, but it is only nominal, it doesn't have any practical function. We also have a branch of the Youth League and a branch of the CCP. But all these are simply nominal existence. You know, workers as well as managers have a very high rate of mobility. Who cares about these political activities nowadays?"

"I don't think I am a private entrepreneur, I am an entrepreneur. Why people always want to distinguish private or collective? Entrepreneurs have done so many good things for the society, especially for the local economy. However, the policy of the state is still not stable enough. Who knows what will happen in the future? Maybe the government will abolish all the favorable policies someday. So, we should play the game carefully. Batting the edge ball is the best strategy. For example, avoiding tax (bishui) rather than escaping tax (taoshui)."

"But I do believe that the most important thing of me is to do well in my business, to expand the scale of my enterprise. Only if I am big and strong enough, Could I have the opportunity and the right to talk about other things."

Another entrepreneur, Li, expressed the same opinion:

"If government officials come, usually we treat them a dinner. But I don't think it's necessary to keep a good relationship with them by giving them presents or something. Because we are not big enough to catch their attention, they don't spend much time in controlling or bothering us either. I believe if my enterprise expands to certain scale, we will have more connection with government officials. In earlier years, government officials have more harassment. But now, they dare not do so. The whole environments restrict government officials a lot in recent years. Personally, I do not like politicians, or officials. We are not the same kind of people and don't have common topics..."

For Mrs. Sun, she said she didn't have any relationship with government officials, and they have no intention to do that either. She said:

“We depend on ourselves totally. We never loan any money from the bank, nor borrow money from friends or relatives. We accumulate all that we have today. Government officials are often arrogant. We don’t like their style and have no intention to make friends with them. What’s the point of doing that? Government cannot help us. And nowadays they don’t bother us either. We are doing our own business. Of course we care about the state’s policies, especially about tax. We tried to take advantage of the policies about drawback (tuishui). We are not ambitious, we just want to develop stably.”

For entrepreneurs of smaller enterprises, they also got some loan from bank, but usually they persuade bank through regulation or various financial incentives to offer loans on favorable terms. And bank loan is only a small amount. Most of their initial capital came from personal ties such as friends or relatives. Qian said that he borrow 200,000 RMB from a friend and loaned 100,000 from bank.

General attitude

The way entrepreneurs look at this era influences the economic system they establish, especially when all kinds of institutions are developed in a society with intense ideology of cooperation and authority. For the average citizens in contemporary China, the transition to capitalism is happening in a way similar to the earlier transition to socialism: through the acquisition and mastery of emerging rhetoric, the practice of new activities, and the experience of new social identities that come with them. Unlike in the earlier period, however, the power of the CCP to define the parameters and significance of each of these realms is increasingly fragmented (Jeffery 2002).

Summing up interviewees' narratives, there are four issues they regarded as most important: 1) The status of private entrepreneurs; 2) The vicious competition; 3) The protection of natural environments; 4) The future of their children.

Larger Enterprises

Owners of larger enterprises concern more about outer environments and long-term issues. The Woman Model Yu told me that:

"The most serious problem of our country now is the unrighteous competition. Many competition methods you could not even imagine, very cruel."

"I am most concerned about the pollution of our environment, for example the agricultural poison's pollution of underground water. The aftereffect can be awful. I've submitted several proposals as a people's Representative to protect environments. I think this is the most important task of our society in recent years."

When asked about their self-perception of their status, Lin said that:

"I never desire high political status, it comes naturally. I think it's ok. It's suited with my economic status on the whole. I have been Shaoxing District's Party Delegate for five years."

But Yu expressed a different opinion:

"Nowadays I have the feeling that our society is becoming more and more fair. In the earlier years our social status was very low. I had to wear "red tap" to protect my company years ago. Now we register as private. No problem now. However, the social status of private entrepreneurs is not high enough. We make more contribution to society than government officials, but our status, especially political status is not

as high as them. There is still a lot to be improved.”

Small Enterprises

Owners of small enterprises, or bottom-up enterprises, have definition and opinions of their own, which can be identified by their attitudes toward major social facts. The way they treat their life and their children's future is very realistic. Qian said:

“It's impossible for the CCP to expire in recent years. The initial intention of the CCP is good. But local governments do wrong things in actual executing. It is understandable that they have trouble in managing such a huge country.”

“As for my son, I will provide him with the best opportunities in education. Now he is in a boarding school in HangZhou, a foreign language secondary school.

Li:

“The economic policies of our government are really effective. No matter what they are, they work! If the party in power can make the country wealthy and powerful, it's enough.

Entrepreneurs of smaller enterprises are economic actors who are outside of the central power structure. According to Wank and Hsing's researches, they should perceive the need to curry favor with officials to develop the extra advantages needed in a rapidly changing economy such as China's. But here we find that instead of actively cultivating connections, these entrepreneurs of smaller enterprises actually refuse to put too many efforts into it. We find that they have already developed certain patterns in strategies and attitudes to cope with their situations, consequently

engendering a new relation between government and entrepreneurs in a clientelist political order.

Agent-client Relationship

Chinese market economy is leaded by government, which results in the phenomenon that Chinese private entrepreneurs' behavior is government official-driven rather than market-driven. Government policies influence the future of private entrepreneurs. The biggest risk of Chinese private entrepreneurs' is not from market, but rather from policies. So, policies predicting is more effective than market predicting.

On the other hand, a research reports that many products' profit rate is 10%, but private enterprises' tax adds up to more than 10%. Other than tax, there are about 50 different kinds of fees on private enterprises. In this condition, private entrepreneurs have no choice other than lie about their transactions and income to avoid tax (China Economy Annual 1998). Thus, Chinese private entrepreneurs have the "original sin" of transgressing the law to earn money.

Although China's market economy has developed a lot, legal systems and contracts are not natural parts of Chinese business behavior, and institutions are not yet depersonalized. Therefore, if a private entrepreneur wants to survive, his core task is to establish trust and dependability.

Private enterprises also have the confusion about game rules. In a transition economy, there are still too many restrictions. The game rules are not clear enough.

Many of the rules and regulations are even self-contradictive. What is legal today could become illegal tomorrow. It is well known that if one does something according to the rules, he can do nothing successfully. But greater risks will accompany these private entrepreneurs if they fail to follow those rules. They are even in the danger of inquest and jail. It is said, "following the rules means waiting for death, but not following the rules means looking for death".

Under all the obligations of both sides, an agent-client relationship is formed between local government officials and private entrepreneurs. The formation of this relationship is the results of a series of interaction of repeatable games.

3. PRINCIPLED CLIENTELISM

In recent years, local government and some private enterprises develop an agent-client relation, in which local governments are agents of local economy and private enterprises are the chosen clients. This relation is the content of a new form of clientelism.

In uncertain institutional environments, private entrepreneurs depend on patronage relationship to respond to their less-than-legitimate status, as well as to pursue protection of their property right. However, with the stabilization of environments, political capital is not as important as it was in the past. Because a new relationship comes into being, entrepreneurs need not pursue patronage from

government by establishing personal connections with government officials. This new relationship is different from the personal kindred relation that Nan Lin emphasizes, but a stabilized existence that will not mobilize or shake with the changing of particular persons. This new relationship is still a kind of "clientelism", but it is no longer exclusive, personal or non-routinized relationship. Governments choose to give patronage to certain enterprises, but the process of selecting is based on certain universal principles. Enterprises try to gain benefits by fitting these principles, rather than brokering, which was most popular in the past.

I call the new relationship between governments and private entrepreneurs as principled clientelism in which universalism breaks the obturation caused by personal relationship. Meanwhile, in the construction process of principled clientelism, local government is more initiative. To most of the private entrepreneurs, their relationship with the government officials is not the entrepreneurs' rent-seeking activities, but an impersonal network connection.

In western market theory, Government's economic function mainly lies in administration. But in China, local government officials have very strong profit motivation. What lies behind the response of local officials to this clientelism is the fact that the level of local economy is the scale of officials' achievement, and it is closely related to the implement of other projects. Meanwhile, officials' income and social status rely on the prosperity of local economy. Government officials hustle to help develop private enterprises far more than others. The tendency of political commercialization here is not only a new image of political exchange, but also the

inevitable outcome of political process when governments perform its role of social producer.

However, government has no direct production ability. Through choosing “client enterprises”, they can supply the gap of controlling economic information and deploy resources to their “agent enterprises” to gain ideal economic performance. In this process, local government officials consign their economic function to private entrepreneurs to realize their own interest pursuing. For the selected enterprises, the goal of their production is to have more and easier access to profit possibilities.

This relationship has institutionalized rules to stabilize itself. Government enacts all kinds of qualifications in selecting enterprises. These qualifications become compulsory obligations for the enterprises if they want to regale themselves on the protection and privileges offered by officials. The institutionalized form impulse the new clientelism to universalism (local universalism of course).

Principled clientelism is the newest development of Walder’s description of dependent clientelism. The government officials discussed here do not definitely have any blood ties with the communist officials. They are new politocracy. This institutionalized clientelism stabilizes their interaction, making the communication of these two sectors more routine and stable.

Clientelism is by definition unequal because of the intrinsic element of reciprocity and obligation. One party seeks some favor, which then obligates both parties to continue the relationship. Breaking off a relationship contains a risk to both parties. Reflecting Wank’s symbiotic clientelism, although symbiotic clientelism

cannot be used to describe the relation between government officials and entrepreneurs of larger private enterprises in Shengzhou, this does not mean that political connection is irrelevant to the new commercial environment. On the contrary, political connection still exists between entrepreneurs of larger enterprises and local governments, but it takes a new form of principled clientelism, or agent-client ties. This principled clientelism is institutionalized clientelist political order and is the association of the two elite groups of nowadays China. The nature changed from the reliance on particularistic *guanxi*-type to universalistic modern orientations.

4. FROM SYMBIOTIC CLIENTELISM TO PRINCIPLED CLIENTELISM

Transformation in Clientelist Spectrum

Wank found that the strong desire of entrepreneurs for support from the bureaucracy was apparent during his interviews. But in my interview, all the private entrepreneurs insist that they depend on their own efforts to develop. It is not necessary to get support from the bureaucracy. In Wank's fieldwork, some entrepreneurs talked about the support in terms of access to profit opportunities including capital and scarce goods. But in my interviews, support is mainly administrative convenience and protection from arbitrary sanctions and regulations.

Moreover, symbiotic clientelism involves almost all the private entrepreneurs. They may get personal ties with government officials in different ways, in which

some are legal, some are illegal, some are ascribed, and some are achieved. But principled clientelism only exists between local government and a limited number of selected enterprises. Most frequently they are the most influential large enterprises of that region. As has been discussed above, the process of establishing this relation is not opportunistic rent-seeking activities any more. As for other smaller enterprises, they prefer to stand by and avoid the political domain, creating a space of their own.

Transformation in Clientelist Exchange

Symbiotic clientelism emphasizes upon the individualized exchanges between officials and entrepreneurs for personal advantage that are often blatantly illegal. It emphasizes the particularistic basis of the emerging alliance between entrepreneurs and officials in China's market economy. It involves an imbalance of power between official patrons and entrepreneurial clients. It involves the exercise of discretion by officials in allocating resources and opportunities, and it is embedded in personal ties (Wank 1995b). In principled clientelism, officials are responsible for local economy. They have high developing motivation. The entrepreneurs are selected clients of the service provided by local governments. The exchange is not personal but institutionalized. The previous illegal part has been removed. The basic principles are universal rather than particular.

In symbiotic clientelism, clients seek patrons in the bureaucracy for political protection as well as for commercial advantage such as access to financial capital, permission to trade in restricted products and engage in direct foreign trade. In principled clientelism, local government is agent of local economy. They seek actively and voluntarily in the local enterprises to find clients to give patronage for the fulfillment of their economic goals as well as other administrative tasks,

developing a structured new relation based on formal principles. Local government aggrandizes its role of providing service. Entrepreneurs do not seek patronage. They act as executors of government's economic policy.

In symbiotic clientelism, government officials are patrons, they provide valuable information on policy shifts, local administrative matters, insider prices and auctions of public enterprises and confiscated goods, and regulatory loopholes, all of which help entrepreneurs to conduct business. Officials draw on their personal ties with other officials to mobilize support for an entrepreneur within the bureaucracy. Entrepreneurs give officials access to material necessities through bribes, salaries, and dividends. They also give officials significant career opportunities through employment as managers and sales personnel. In principled clientelism, private entrepreneurs seldom give individual officials any money, but they do provide large amount of money to local government every year as sponsors of all kinds of activities and other projects organized by government. Most importantly, by fulfilling all the principles required by government, they shape their enterprises into what the local governments want and help governments to realize structural transformation of local economy.

Transformation in Clientelist Network

In symbiotic clientelism, a patron is essential to business success. Entrepreneurs who do not cultivate a patron or some other kind of bureaucratic support are unlikely to be successful. In principled clientelism, clients and agents do depend on each other, but the power relation between them is balanced. Enterprises can still survive and develop when escaping from political domain. For the selected enterprises, their cooperation is not compulsory, nor do they have any financial responsibility to each

other.

Relations in symbiotic clientelism can be very blatantly instrumental and involve large sums of money and valuable commodities. Their relation is “personal ties of money”. This patron-client relation is based on a cash nexus have thus proliferated. In symbiotic clientelism, officials compete to become linked to the larger private firms. Entrepreneurs running the larger and wealthier firms are the most desired clients, inasmuch as they can pay more for the discretion of highly placed officials. However, such competition may backfire because of the competition and jealousies among officials over the rewards (Wank 1995b). In principled clientelism, relations are still instrumental, but less personal. Actually, because enterprises have to fulfill certain principles to be selected and most frequently the most influential enterprises are chosen to the privileges provided by government, their most important job is to expand and develop their enterprises rather than bribing individual officials.

Summarizing the history of private entrepreneurs and the development of clientelism, Table 2 compare different clientelism in aspects like degree of dependence, power relationship, and nature of relation, etc.

<Table 2 here>

Why does principled clientelism exist only in rural China?

The principled clientelism I observed exists only in rural contexts, which means small cities and villages like Shengzhou. The difference between urban and rural China is a complicated and long story. I will only give several reasons central to my argument.

Classical property rights theory maintains that clearly assigned private property rights are important for the smooth operation of a market economy. But in contemporary China, there is no clear property right, nor stable external environment, why private economy can flourish? It has been found that private entrepreneurs use clientelism to cope with unstable environments. When situations change, the forms of clientelism change correspondently.

That China's economy is undergoing a dramatic rationalization is indisputable. However, the degree of rationalization varies in different part of China. In rural China, the forces of modernization that tend to introduce institutions, such as law, contract and other means of resort when trust fails or is unavailable, have not moved to a point where the old-fashioned means of coping can be abandoned. So, when the most important factor to make economic activities possible cannot be effectively established, the traditional ways remain active.

Urban entrepreneurs often "work the system" in ways that reinforce a closed, undemocratic political process. Rural entrepreneurs, by contrast, are often working from the outside, which requires them to engage in more adversarial and open politicking (Gilley 2002). "We theorize capitalism without capitalists as a distinctive new strategy of transition adopted by technocratic-intellectual elites in societies where no class of private owners existed prior to the introduction of market mechanism" (Eyal, Szelenyi and Townsley 1998). In rural China, on the contrary, it is capitalists without capitalism.

Guthrie illustrates that the closer an organization is to the central government, the less likely the general manager of that organization is to see guanxi as continuing

to be important in the reform era (Guthrie 2002b). Organizations in urban China are definitely in higher structural positions. Rural regions, therefore, maintain the influence of political connection, although in new forms.

5. PRINCIPLED CLIENTELISM HYPOTHESIS

Up to now, a lot have been discussed about principled clientelism. Thus there are hypotheses based on this theoretical approach:

Political connection is more available to larger enterprises. Through the principled clientelism, they are privileged to access of information and profitable opportunities. That's to say,

Hypothesis 4: Political connection has positive and increasing effects on private entrepreneurs' economic success.

Furthermore, because the new principled clientelism is less personal, so former cadres, who have more personal connection with officials, cannot fulfill their privilege.

Hypothesis 5-1: There will be less and less former cadre become private entrepreneurs.

Hypothesis 5-2: Former cadre's impacts decline.

Hypothesis 6: Political connections are more likely to have significant impacts in rural areas.

Chapter 5 MEASUREMENT, DATA AND METHODS

1. METHOD

This research employs both quantitative survey and in-depth interview. Although both quantitative and qualitative researches share basic principles of science, the two approaches differ in significant ways. Each has its strengths and limitations, topics or issues where it glitters, and classic studies that provide remarkable insights into social life (Neuman 1997). This research tries to combine the features of each (King, Keohane, and Verba 1994). Since there is only partial overlap, a study using both is fuller or more comprehensive.

In chapter 4, the qualitative in-depth interviews are used to identify the detailed causal process of changing and describe the image of their relationship and the process of its formation as well as the motivation of both sides. We have also developed testable hypotheses.

Then quantitative statistical models are to test whether political capital is important to private entrepreneurs, and will examine the change of its effects from year to year. "Private firms operating under hard-budget constraints display higher productivity through economizing on production costs, yet their access to formal

sources (i.e. state-owned banks) of capital and factor resources is least favorable”(Nee 1992). So I will estimate both production function and regression of firm scales.

2. DATA

The unit of analysis is the individuals. The data set was obtained through a series of surveys of Chinese private enterprise conducted by Zhang Houyi (Chinese Academy of Social Sciences), Yi Yuanzheng (All China Industry and Commerce Federation), Dai Jianzhong (Beijing Academy of Social Sciences) and Li Lulu (Renmin University of China). The survey in 1993 is the first nation-wide sample survey of private-owned enterprises and their owners. The enterprises were randomly selected. For the 1993 survey, 1440 enterprises from 31 provinces were sampled on the basis of proportional probability. After 1993, the survey was conducted every two years. The latest available data is collected in 2000. For the 1995 survey, 2869 enterprises from 31 provinces were selected. For the 1997 survey, 1946 enterprises from 22 provinces were selected. For the 2000 survey, 3073 enterprises from 31 provinces were selected. The questionnaire, designed for their study of private entrepreneurs, was subjected to validity tests and shown to be an effective and reliable instrument. I have done some preliminary data cleaning, such as deleting outliers, influent points, to make the results more robust. I have also run

production function estimate to test the quality of the data. After deleting some cases with missing or outlying values on key variables, for all the four years, the sum of coefficients of labor and capital are equal to or a little larger than 1. These results accord with the requirements of Cobb-Douglas production function.

<Table 3 here>

Qualitative data were collected by means of structured interviews I conducted in Zhejiang province, where private economy is most prosperous in China. I have done in-depth interviews with 12 private entrepreneurs and several government officials. I have also had informal conversation with some employees, ordinary citizens and journalists.

3. MEASUREMENT

For all the surveys, nearly identical questionnaires were used, and they included questions regarding the annual sales income, capital composition and political ties. The key variables are defined in the following.

Dependent Variable

Sales income. —I use the logarithm of last year’s total sales income of the enterprise (Chinese yuan/year) as the dependent variable. The data set has the information on the respondents’ last year profit, revenue, tax, fees and shares. To avoid careless answers, claims of sales income can be adjusted according to the

related variables.

Independent Variables

Political capital. —Political capital is a concept having been widely used and discussed. In the past, no matter what the assumption is, it is always measured by party membership or position, for example, cadre status. However, capital is the accumulation of past investment. As a kind of capital, political capital should at least have these characteristics: (a) extension in time; (b) deliberate sacrifice in the present for future benefit; and (c) alienability (Arrow 2000).

This research will employ a different definition of political capital. Political capital of Chinese private entrepreneurs is defined as the resources one can get in the old system. There are two reasons: firstly, party membership is a too simplified reduction that has been realized by many scholars. Secondly, as for private entrepreneurs, party membership is especially inapplicable. Because private property ownership contradicts to classical communist ideology, it is not until 2001 that private entrepreneurs can legally join the CCP. Although some private entrepreneurs were party member before they set their own business, they left the party domain, especially routine party activities, when they became private entrepreneurs. That is why their political capital cannot be measured by party membership, but is best embodied in their ability to gain resources in the distributive system. It is the relationship with officials that matters, not personal political credits.

I also distinguish two types of political capital. One is the exogenous political

capital they have accumulated before they enter the private economy sector; the other is the endogenous political capital they try to gain by intentional interaction with government officials. The latter is famous as Chinese *guanxi* practice, which is easy to be confused with political connection. The political connection in this research includes both ascribed⁷ political connection and achieved *guanxi*.

Thus, political capital is measured mainly by both party membership and political connection. Former cadre and social investment will also be used as complementary measurement.

Education. —I use the years of formal education as a measure of human capital.

Party membership. —I use a dummy variable (CCP membership=1) to indicate Communist Party membership as political capital.

Connection. —I use father, closest relative, closest friend, spouse, and adult kid's position (cadre or not and rank) to estimate private entrepreneurs' political connection.

Social Investment. —The cost of cultivating connections with officials. I use the logarithm of the amount of money used in socializing activities as an alternative measurement of political capital.

Controlled Variables

Asset. —The logarithm of last year's total asset of the enterprise (Chinese

⁷ For example, the political connection of Prince Party is ascribed. They do not need to do anything, their family name alone can provide them with great advantages, which common citizens can not even imagine.

yuan/year).

Labor. —The logarithm of last year's total number of employees.

Gender. —I use a dummy variable (male=1) to examine gender-based variations in the annual profit of private enterprises.

City. —I use a dummy variable (big, middle city=1; small city, village=0) to distinguish whether the main activities of the enterprise are in rural or urban region.

Year. —How long has the enterprise been existed.

Age and age². —I use the first- and second- order effects of age to measure the effect of work experience or seniority, as part of human capital.

Former cadre. —I use dummy variables “Administrative cadre=1, Economic cadre=1; others=0” to measure whether the entrepreneurs were cadres before they set their enterprises.

4. STATISTICAL MODEL

I will run OLS regression to test the impacts of political capital on the growth (scale) and productivity of private enterprises. The models are defined as:

a. Production function: $\ln Y = \alpha + \beta_1 \ln L + \beta_2 \ln K + \gamma P + \delta X + e$

b. Reduced form: $\ln Y = \alpha + \gamma P + \delta X + e$.

In model (a), “Y” stands for per worker gross value output or sales income, “P” for political/social capital/investment/status, and “X” for control variables, K for capital input per worker, L for total number of employees.

“P” stands for a vector of independent variables such as party membership, political connection, former cadre, etc. To explore the impacts of different variables on enterprise performance, we only need to evaluate “P”.

All the equations are estimated via the linear regression method in SPSS procedure.

In this chapter, I will present the results of quantitative data analysis, which is mainly descriptive analysis, which is to give a picture of the characteristics of entrepreneurs. In part two, I will test hypotheses with regression analysis.

1. THE CHANGING PROFILES OF PRIVATE ENTREPRENEURS

There are diverse candidates who could constitute a pool of entrepreneurs: former cadre, technicians, new politicians, retired leaders, etc. In addition, new entrepreneurs who are starting small businesses are also included. In China, who are more likely to become private entrepreneurs? Are there identifiable patterns?

CHAPTER 6 EMPIRICAL ANALYSIS

In this chapter, I will present the results of quantitative data analysis. Part one is mainly descriptive analysis, which is to give a picture of the composition of private entrepreneurs. In part two, I will test hypotheses with regression functions.

1. THE CHANGING PROFILES OF PRIVATE ENTREPRENEURS

There are diverse candidates who could constitute a new propertied class: former cadre, technocrats, new politocracy, opinion-making intellectual elite and the new entrepreneurs who are starting small business in the hope that they will grow big. In China, who are more likely to become private entrepreneurs? Who are these owners? Are there identifiable owners?

Initial Occupation

<Table 4 here>

<Table 5 here>

Table 4 reports that the majority of private entrepreneurs are ordinary workers or farmers before they began private business. The percentage of former administrative cadre and economic cadre is declining. Administrative cadres decrease by 3.3% , from 1993's 6.0% to 2000's 2.7%. When we add the percentage of worker, farmer, self-employed and unemployed together, as Table 5 shows, it becomes clearer that private business is mainly occupied by the new bottom-up entrepreneurs. More than 2/3 private entrepreneurs' first job is farmers, ordinary workers or unemployed. Even in urban regions, about 15-20% private entrepreneurs' first job is farmer.

These bottom-up entrepreneurs are not from the privileged class of China, because private business has yet to move to the point of such an attractive occupation that the privileged individuals in the commune system give up their advantages and attend the newly rising private sector. The declined percentage of former cadre is due to two reasons. First, the economic conditions of officials have been improved a lot. The upsurge of doing business appeared in the 1980s has fallen back to a normal level. Cadres partly regain their prestige, although with a lot of changes in its content. Second, now is not as easily as before to transform political advantages into economic profits. Thus, hypothesis 5-1 is supported.

Trends of Political Credits

<Table 6 here>

In Table 6 we find that men are dominating. Almost 90% private entrepreneurs are men. And there is no decline signal of this domination. The figure hardly changes from 1993 to 2000. Considering the fact that gender equality is a special policy of communist China, the decline of women’s status can be regarded as an indicator of the diminishing political influence. Although men are dominating, urban China has more female private entrepreneurs than rural China. This is reasonable. Women are better educated in urban regions than in rural region.

We also find that people with less political ties enter into private sector, from 7.9% in year 1993 to 2.9% in year 1997. In the beginning of 1990s, we have about 13% cadre in private entrepreneurs, but at the end of 1990s, the figure declines to 7%. Fewer cadres join (or stay in) the private sector. However, the percentage of party member increases. In year 2000, almost 1/5 private entrepreneur is party member. It is quite noticeable considering the fact that only 5% party member⁸ in national population. In urban areas, there are more private entrepreneurs with political connections. There is also a larger part of urban private entrepreneurs with cadre or professional background. Rural private entrepreneurs have less political connection. This is also reasonable because urban regions have more government officials and other economic cadres with higher position. But a larger part of private entrepreneurs

⁸ The ratio of 2000’s party member to population.

are party members in rural regions than in urban areas. Considering the relatively greater amount of party members in cities, this difference is even more significant and worth further analysis.

As for education level, Private entrepreneurs' educational level is increasing. It is higher than average level. The education level of urban regions is also higher than that of rural China. The proportion of college or above education holders increases from 5.3% to 11.8%.

2. REGRESSION ANALYSIS

Results

I first examine patterns of private enterprises' assets determinants in four years using a multivariate regression model. Table 7 reports the parameter estimates of the key covariates in four years.

<Table 7, 8 here>

Education——With regard to formal education, there were significant returns to all four years. And these returns increased from year to year. In urban China, education has a higher return than rural China. The estimates shows that in year 1993, one year formal education had 13% ($\exp<.112>$) more sales income, in year 2000, it increases to 22%.

Gender——Male has positive and significant impacts. Considering the relative

privilege of women in communist China due to political reasons, the resurgence of men's advantage is a sign of declining political influence.

Party membership——significantly decline. In urban area, more party members enter into private sector, but the effects of party membership are not significant. In rural area, the effects of party membership are still significant, but the parameters are declining.

Political connection——significantly increase in rural regions. In urban area, there are more private entrepreneurs with more political ties, but political connections are not significant. In rural China, impacts of political connection increase. This result is consistent with Guthrie's finding that social position influences the extent to which individuals perceive that they need to cultivate *guanxi* ties. Individuals embedded in powerful social networks may see no need to pull social strings (la *guanxi*) (Guthrie 2002b).

So, the impacts of party membership decline but those of political connection increase. We find that past political background is not important any more, but the effects of current political connection remain in rural China. Neither political economy approach nor market transition thesis is correct. The effects of political capital turn out to be complex and need further analysis and explanation. Using models a and b, we have the following tables.

<Table 9, 10, 11, 12 here>

The Tables show that factors like party membership, political connection have

positive effects on the scales of private enterprises, but not on productivity. In both urban and rural regions, education has significant and increasing impacts on productivity.

Social investment——significantly increase. Table 13 and Table 14 is the results of model a, replacing “P” with the amount of social investment. It shows that social capital investment has positive and significantly increasing impacts on productivity. The returns to social investment are greater in rural regions than in urban regions.

<Table 13, 14, 15, 16 here>

Test of Hypothesis

Hypothesis 1: supported

Cultural capital, measured by formal education, is more and more important in post-socialist society. Evidence shows that there are increasing returns to cultural capital. We also find that cultural capital has higher returns in urban than in rural China. This finding supports Market Transition thesis.

Hypothesis 2: supported

When political connection is controlled, the returns to party membership are declining. Political capital is a very special kind of social capital. It is special because it is institutionalized in communist societies. One of the most important results of economic transformation is that political capital change into social capital. That’s why the effects of party membership decline but those of political connections

increase. In Wank's research, he also find that the guanxi between government officials and entrepreneurs function at personal level.

Hypothesis 3: supported

According to Table 14, when try the social investment analysis in the context of production function, it has significant impacts on productivity. But the causal connections may simultaneously go both directions. As stated in Chapter 4, the narrative stories suggest that political connections are more important for larger enterprises and therefore large enterprises invest more money in political connections.

Hypothesis 4: not completely supported

Although the private entrepreneurs in urban areas have more political connection and stronger political background, the impact of political connection in urban China is not significant, but it is significant in rural China, where fewer people have strong political background. And the credits of their political connection are less than urban regions. Although the parameters are not very large, it increases slightly from year to year. In urban China, people do have more opportunities to know officials in higher position, and they are more likely to be in a higher position in the old system themselves.

Scholars in Economics and Management lay heavy emphasis on the importance of the creation of private property rights and the privatization of the economy. They

believe that uncertain environment is the main reason of the existence of *guanxi* or political connection. *Guanxi* is used to deal with uncertain environments. Now that the environments of Chinese private economy are more and more stable and certain, the impacts of political connection should decline. Urban China does have a stable environment in property right and other regulations than rural China. According to the environment dependent hypothesis, it is reasonable that political connection is more important in rural China than in urban China. But why in rural China, the impacts of political capital are actually increasing? We will not get the conclusion that the stability of private economy in rural China is even worse. This is because of the existence of principled clientelism in rural China, which will be discussed in hypothesis 6.

Hypothesis 5:

H5-1: supported. As discussed in part 1, the percentage of former administrative cadre and economic cadre is declining. More than 2/3 private entrepreneurs' first job is farmers, ordinary workers or unemployed. Even in urban regions, about 15-20% private entrepreneurs' first job is farmer.

H5-2: Supported. The returns to former cadre are significant but declining from year to year. It even becomes insignificant in 2000. According to Political Capitalism theory, previously advantaged groups maintain their advantages by successful conversion of political capital into individual private wealth. They convert advantaged positions into new forms of post-communist privilege. They realize this

conversion either by entering the moneymaking business themselves or by providing certain benefits to certain entrepreneurs to exchange some money (so called “power-money” exchange). Consequently, there should be (1) more and more former cadre become private entrepreneurs and (2) People with more political connection are more likely to expand their business. The test and confirmation of both hypothesis 5-1 and 5-2 decline the Political Capitalism theory.

Walder has similar findings. He discovers that the more direct the connection of a household to rural political office, the larger its earning power, whether from wages or from household enterprise. Entrepreneur households have past political ties have lower incomes than the entrepreneurs with no past or present political ties. Entrepreneur households containing former cadres earn 8 percent less, and households that have former kin earn 24 percent less, than households that do not have these past political ties. We can therefore rule out the possibility that past connections to political office elevate the incomes of these entrepreneur households.

Hypothesis 6: supported

Although urban private entrepreneurs have more political connections than their rural counterparts, political connection are more likely to have significant impacts in rural areas. We find that party membership and political connection have no significant impacts in urban areas, but in rural China, where principled clientelism exists, they are still effective to the success of private enterprises.

Principled Clientelism Hypothesis:

There are both evidence support political economy theory and decline it. The whole data shows increasing returns to political connection. And in rural China, the influence of party membership maintained. But in urban China, the impacts of political connection and party membership are not significant. Even in rural China where presents evidence of maintenance of political power, the returns to party membership actually decline greatly. In 1993, being a party member has (exp.438)% higher assets than common people. In 2000, the advantage decline to (exp.198)%.

Correspondingly, market transition thesis is supported in regard to returns to party membership and the transformation of cadre position into new economic capital. It is also solidly supported by the fact that cultural capital is significantly important with firmly increasing impacts.

My findings cast doubt on the validity of both the political economy theory and the market transition thesis. The features of China's reform are a reform from local society, but leaded by the government. However, every big progress comes from local level. China still has a Byzantine repressive political system. And the relation between this political system and its economic success is not clear. Thus the maintenance of political capital does exist, but it appears to be relatively small scale and conditionally effective.

The social change process of China is both evolutionary and involutionary. However, different from Central Europe, there is differentiation in China. Political capital still have privilege, but the new economic elites have many privileges too. China is developing capitalists without capitalism. The maintenance of political

connection is accompanied by the changes of its content, which is now in the form of principled clientelism. In urban China, the evidence of the decline of political capital is obvious, but in rural China, it seems that the privileges of political capital maintain, sometimes even increase, especially when we come to political connection.

Generally, the principled clientelism hypothesis is supported. It is a practical strategy to try to transform the devalued capital into new kinds of capital in the condition of structural change. Private entrepreneurs transform their economic capital into political capital; thereby achieve more economic accumulation through it. Only those who are good at capital transformation could succeed. To maintain and transfer their advantaged in communal system, social actors should have the right kinds of capital. In this context, the relationship between the old communal elites and the new elites who are out of the system experience dramatic change. A new alliance is formed. Both of them realize that unstable environments make against both reign and commercial activities. Therefore, cooperation is a win-win choice. Driven by local interests, some middle-level government officials take sides with local economic elites. On local level, economic elites and political elites establish close relationship. The new relationship, principled clientelism, characteristic of less personal and based on certain universalistic rules, is the results of rational choice of both sides.

CHAPTER 7 CONCLUSION AND DISCUSSION

This research tries to answer one core question: how private enterprises could mushroom when the formal property rights institution was in incubation and its enforcement was ineffective. Peng's research indicates that: in the early stage of market reform, informal network can protect property rights through individual trust and informal norms (Peng 2002). In recent years, with the development of market and private economy, there emerges institutionalized clientelist network between entrepreneurs of larger enterprises and local government officials to provide opportunities for both sides.

This research demonstrates both the persistence of political capital and how it is changing in the midst of the rapid institutional transformations since the 1990s. A detailed look at political capital will shed light on one of the most dominant aspects of contemporary Chinese social structure. It also has large implications for the current debates. I believe that the distinctiveness of the Chinese private entrepreneurs and the quality of my data have much to contribute to theories of socialist transition in general, and to an understanding of the private economy development in China in particular.

THE POLITICAL CONSEQUENCES

OF PRINCIPLED CLIENTELISM

The most politically significant group, and the group that historically has contained the seeds of a civil society and has been a precursor to a more democratic system of rule, is the private entrepreneurs (Moore 1967). Theories of market transition predicted that these “producers” would wrest power from local officials. But as of now, this has yet to occur in China’s countryside. This study investigates the constraints that local government applies to the private sector. It also shows that inducements are offered to private firms under principled clientelism. This paper analyzes the combination of different social forces through the development of private entrepreneurs and the impacts of entrepreneurship on changing social, political and economic arrangements in China. In the framework of “Market Transition Theory” and “Clientelism”, this research indicates that in market transition process, there are two systems in charging of resources deploying. They are separate and both can provide opportunities and resources. Institutionalized principle clientelism stabilizes their interaction. This existing social structure is not a transitional feature. It will be preserved as a new way of deploying resources and pursuing social interest, an institutional structure arrangement that is maturing.

The corporatist nature of this relationship offers an explanation of how communist cadres in China can promote the emergence of an economic elite that in other settings would be independent and therefore threatening. The common perception of “civil society” discourse, in which an emerging autonomous society is

attributed the potential for the ultimate overthrow of the communist state, will not happen at this moment. The activities sponsored by private enterprises are mostly related to government projects or proposed by governments. Few of them are Non-Government Organization (NGO) supporters.

How communist officials are now using corporatist mechanisms to deal with a sector that the government does not own and therefore cannot control through manipulation of contracting arrangements or distribution of property rights (Oi 1999). Chinese private sector will not turn out to be what the classical theories predict. The existence of principled clientelism diminishes the chances that a growing private sector will emerge as an independent economic elite capable of usurping the power of local officials. On the contrary, the cooperation of local governments and influential private entrepreneurs results in a balance.

However, the entrepreneurs of smaller enterprises create their own space. There do exist factors for further development of “civil society”. In the early stage, market economy develops in a relatively independent field. With the gradual expansion of market, however, horizontal market connections set up new networks among individual entrepreneurs. Some entrepreneurs I interviewed told me that they prefer to establish relation with other entrepreneurs rather than officials. So, private entrepreneurs have alternative channels to develop and avoid one-side dependence on administrative system. In this sense, they can restrict officials’ behavior. For example, if officials do not cooperate, they can breakup their connection unilaterally.

We also find that both redistributive system and market system have changed.

Local governments rely less on central government and divert their role from control to service; private entrepreneurs begin to seek ally with officials due to the ever-increasing intensity of market competition. The principled clientelism I describe here as a media can advance and stabilize the interaction between these two systems.

Although private entrepreneurs appeared as unexpected social forces out of the system in the very beginning, government administrative power is authoritative and legitimate. At first, private economy operates outside the command economy. With the growth of private economy, local governments include them into the channel of administration step by step. Admitting their legal position, officials penetrate into the operation process of private enterprises to exert the power of government. In different stages, governments have different methods to control private enterprises.

REMAINING QUESTIONS

In this research, I noticed the difference between ascribed political capital and acquired political capital. In the new situation, the influence of ascribed political capital has declined, but that of the acquired political capital has increased. Ascribed political capital means the political capital gained before entrepreneurs became private entrepreneurs, such as party membership, former cadre position or family background. Achieved political capital means the political connection they gain after they became private entrepreneurs, especially the political status they gain due to their achievements in private business.

Market transition debate focus on whether political capital will lose its

advantages in China. The political capital they discuss is mainly ascribed political capital. My research indicates that although ascribed political capital has declined due to the development of market and institutionalization of environments, political capital maintain its influence in the form of achieved political capital. However, the existing data sets do not have information about how and when the entrepreneurs gain their political capital, we can not differentiate ascribed or achieved political capital. Further evidence is needed to answer the following questions: whether the differentiation of ascribed and achieved political capital really exists? What is the relation between owns of ascribed political capital and those of achieved political capital? What is the transformation mechanism between them?

TABLES

Table 1 Local Government as Agent

Function	Sources	Services
Administrative constrains	Credits	Loan, debit deferment
	Administrative power (determent)	Licensing; Entry permission
Economic inducements	Information and Technology	Provide information of policy change and new technology
	Authority	Credibility; Transregional and transnational connection

Table 2 Comparison of Different Clientelism

	Dependent Clientelism ⁹	Symbiotic Clientelism	Principled Clientelism
Two parts of the relation	Private entrepreneurs vs. officials	Private entrepreneurs vs. officials	Private entrepreneurs of larger enterprises vs. officials
Degree of dependence	Totally dependent	Modestly dependent	Less dependent
Power relationship	Imbalanced	Imbalanced	Balanced
Model	Patron-client	Patron-client	Agent-client
What to present?	Intangible resources such as compliance; all material and career advantages	Money; protection and access to profit opportunities	Compliance of regulations; profit opportunities and administrative convenience
Nature of relation	Personal	Instrumental & Personal	Instrumental & Less personal

⁹ I take the concept of Dependent clientelism from Walder (1986). But what Walder describes is the relationship between cadres and worker in communist work units. As discussed in Chapter2, in the first period (1978-1992), private entrepreneurs totally dependent on local officials due to the lack of legitimate status.

TABLE 3: Production Function, four years (dependent variable: LnSalesincome)

	1993	1995	1997	2000
Constant	1.051***	3.704***	.743***	1.164***
LnCapital	.568***	.651***	.548***	.456***
LnLabor	.348***	.386***	.533***	.591***
R ²	.688	.713	.621	.632
N	1196	1569	1375	2511

Table 4: Occupational Origins of Private Entrepreneurs

	1993Valid Percent	1995	1997	2000
PROFESS	11.0	11.8	7.5	14.8
AD CADRE	6.0	6.6	5.6	2.7
EN CADRE	7.6	6.9	5.6	5.5
WORKER	26.5	22.8	18.6	24.6
SOLDIER	5.3	4.2	4.5	4.2
COMMERCE	7.3	6.4	4.1	4.7
FARMER	15.6	16.5	39.2	28.9
CRAFT	9.7	8.8	1.6	1.1
SELF-EMP	6.8	11.1	6.6	5.6
OTHER	4.3	4.8	6.6	8
Total	100.0			
N	1421	2846	1926	2850

TABLE 5 First job: Occupation Distribution (cumulative percentage of worker, farmer, self-employed and unemployed)

Valid percentage	1993	1995	1997	2000
Whole	75.5	74.7	77.5	77
Urban	67.8	64.5	62.1	68.8
Rural	82.5	79.5	82.1	83.3
N	1421	2846	1926	2850

Table 6: The Mean of Key Variables:

		1993	1995	1997	2000
Age	Combined	41.895	40.959	40.495	44.504
	Urban	41.578	40.821	40.598	43.998
	Rural	42.175	41.034	40.402	44.891
Male	Combined	.903	.895	.917	.892
	Urban	.868	.854	.890	.856
	Rural	.934	.916	.931	.917
Education	Combined	10.708	10.911	11.209	12.459
	Urban	11.562	12.144	12.674	13.665
	Rural	9.945	10.314	10.640	11.592
	College%	5.3	5.1	5.4	11.8
Party membership	Combined	.1330	.170	.181	.200
	Urban	.109	.112	.144	.156
	Rural	.147	.199	.189	.236
Year	Combined	5.928	6.876	5.526	7.505
	Urban	5.344	6.463	5.886	7.559
	Rural	6.469	7.066	5.431	7.446
Political ties	Combined	7.939	5.720	2.934	NA ¹⁰
	Urban	8.554	6.762	3.502	
	Rural	7.383	5.227	2.841	
Professional	Combined	.110	.118	.070	.139
	Urban	.149	.177	.130	.205
	Rural	.074	.091	.053	.090
Economic cadre	Combined	.076	.069	.052	.051
	Urban	.098	.088	.098	.054
	Rural	.057	.060	.041	.048
Administrative cadre	Combined	.060	.066	.052	.025
	Urban	.076	.090	.073	.034
	Rural	.044	.055	.045	.019
N	Combined	1421	2846	1926	2850
	Urban	662	926	492	1195
	Rural	741	1913	1255	1538

Note: a. Age refers to the mean age in the sample. Education refers to the mean years of education in the sample. Year refers to average longevity of enterprises. All other entries refer to proportions in that category.

b. 2000 has no information of political connection.

¹⁰ Not Available. There is no information of political ties in year 2000's questionnaire.

Table 7 OLS Estimate of Key Variables

(Urban Regions; Dependent Variable: Lnsalesincome)

	1993	1995	1997	2000
Constant	-4.897E-02	8.325***	-.286	1.558***
Male	.808***	.504	.656*	.554
Age	.153**	.213**	.162*	9.743E-02*
Age ²	-.001***	-.002***	-.001	-.01
Education	.159***	.213***	.216*	.222***
Year	.02	.091***	.041	.058***
Party membership	.357	.374	.123	-.036
Political connection	.005	-.001	.004	N.A.
N	593	377	391	1081

Table 8 OLS Estimate of Key Variables

(Rural Regions; Dependent Variable: Lnsalesincome)

	1993	1995	1997	2000
Constant	1.829	9.368***	.175	.723
Male	.432	.892***	.200	.505***
Age	.068	.103**	.088**	.070
Age ²	-.001	-.001***	-.001*	-.001
Education	.091*	.114***	.168***	.213***
Year	.025	.040***	.052***	.058***
Party membership	.374**	.346***	.208*	.193*
Political connection	.028**	.030***	.046***	N.A.
N	687	1252	1103	1424

p<0.001 ***, p<0.01 **, p<0.05*

Table 9 OLS Estimates of Political Connection (Production Function Urban)

	1993	1995	1997	2000
Constant	.509	3.352	1.414	2.430**
Capital	.510***	.676***	.596***	.423***
Labor	.415***	.275***	.462***	.501***
Male	.313*	-.104	-.035	.087
Age	.015	-.006	-.029	-.011
Age ²	-.000	-.000	.000	.000
Education	.024**	.063**	.007**	.009**
Year	-.027	.026	-.025	-.023*
Party membership	.171	.052	.015	-.104
Former Cadre	-.015	-.039	.030	-.234
Political connection	.003	-.014	.002	N.A.
R ²	.578	.737	.631	.594
N	523	320	293	949

Table 10 OLS Estimates of Political Connection (Production Function Rural)

	1993	1995	1997	2000
Constant	1.121	2.383***	.061	.800
Capital	.584***	.639***	.552***	.404***
Labor	.302***	.423***	.526***	.726***
Male	.110	.143	.112	.166
Age	-.000	.054*	.029	-.012
Age ²	-.001	-.001*	-.000	.000
Education	.004**	.049*	.015	.061*
Year	-.013	-.013*	-.019*	-.019**
Party membership	.044	.189**	-.158*	-.028
Former Cadre	-.073	.005	-.135	.282*
Political connection	.007	-.006	.006	N.A.
R ²	.623	.709	.596	.674
N	620	1173	953	1271

Table 11 OLS Estimates of Political Capital (Reduced Form Urban)

	1993	1995	1997	2000
Constant	.218	8.216***	-.390	1.705
Male	.832***	.536**	.656*	.555***
Age	.140**	.215**	.172*	.091
Age ²	-.002**	-.003***	-.002*	-.001
Education	.083***	.149***	.059	.134***
Year	.025	.101***	.044	.058***
Party membership	.352	.373	.180	-.027
Former Cadre	-.036	.260	.567*	-.239
Political Connection	.006	-.003	.002	N.A.
R ²	.289	.397	.262	.298
N	563	338	358	981

Table 12 OLS Estimates of Political Capital (Reduced Form Rural)

	1993	1995	1997	2000
Constant	1.967	11.714***	7.055E-02	.576
Male	.415	.688***	.363	.757***
Age	.061	.026	.129***	.111*
Age ²	-.001	-.000	-.001***	-.001*
Education	.051*	.087***	.092***	.123***
Year	.026	.045***	.039**	.025**
Party membership	.389*	.215***	.153**	.103***
Former Cadre	-.171	.007	-.312	.733***
Political Connection	.030**	.029***	.053***	N.A.
R ²	.216	.204	.255	.287
N	664	377	1056	1296

Table 13 OLS Estimates of Social Investment (Production Function Urban)

	1993	1995	1997	2000
Constant	1.289	3.519*	1.477	2.232*
Capital	.381***	.649***	.395***	.290***
Labor	.307***	.229**	.300**	.320***
Male	.238	-.111	-.025	.191
Age	.018	-.028	.018	.015
Age ²	-.000	.000	-.000	-.000
Education	.027	.069*	-.010	.013
Year	-.019	.018	-.001	-.016
Party membership	.286	.156	.226	-.095
Former Cadre	-.105	-.155	.259	.016
Social Investment	.129**	.017	.158***	.187***
R ²	.579	.723	.737	.639
N	369	373	342	383

Table 14 OLS Estimates of Social Investment (Production Function Rural)

	1993	1995	1997	2000
Constant	2.012*	2.082**	1.339	1.882
Capital	.515***	.653***	.506***	.247***
Labor	.282***	.423***	.363***	.508***
Male	.067	.203	.009	.137
Age	-.009	.045	.017	-.029
Age ²	-.000	-.001	-.000	.000
Education	.006	-.009	-.002	.035*
Year	-.033**	-.017*	-.038***	-.003
Party membership	.173	.123	.285	-.050
Former Cadre	-.078	.102	.035	.403*
Social Investment	.160***	.189***	.284***	.404***
R ²	.665	.742	.628	.707
N	409	747	512	487

Table 15 OLS Estimates of Social Investment (Reduced Form Urban)

	1993	1995	1997	2000
Constant	2.946*	6.425**	1.365	1.532
Male	.353*	.302	-.257	.396*
Age	.041	.185	.128	.101
Age ²	-.001	-.002	-.001	-.001
Education	.045*	.141**	-.004	.043*
Year	.025	.100**	.005	.007
Party membership	.443*	.929*	.334	.049
Former Cadre	-.096	-.073	.402	.134
Social Investment	.564***	.536***	.747***	.780***
R ²	.356	.176	.642	.500
N	392	382	374	392

Table 16 OLS Estimates of Social Investment (Reduced Form Rural)

	1993	1995	1997	2000
Constant	2.875**	8.276***	1.864	3.444**
Male	.219	.580*	-.015*	.253
Age	.064	.044	.094*	-.029
Age ²	-.001	-.001	-.001	.000
Education	.040	.069**	.037	.080***
Year	-.023	.039**	-.001	.017
Party membership	.300**	.376**	-.156	.137
Former Cadre	-.053	.063	.097	.615**
Social Investment	.550***	.448***	.748***	.695***
R ²	.374	.213	.402	.539
N	437	766	551	498

APPENDIX 1: LIST OF INTERVIEWEES

Private Entrepreneurs

Name	Age	Education	Gender	Industry
Zhao	35	College	Male	Electronic equipment
Lin	36	College	Male	Clothing and neckties
Yu	35	College	Female	Electronic equipment
Qian	37	High school	Male	Clothing and neckties
Li	42	Professional High School	Female	Electronic equipment
Wong	53	Secondary School	Male	Machinery
Shi	47	Secondary School	Female	Clothing and neckties
Du	45	High School	Male	Electrical equipment
Fan	44	Secondary School	Male	Clothing and neckties
Yan	38	Secondary School	Male	Clothing and neckties
Wu	55	Secondary School	Male	Clothing and neckties
Zhang	62	Secondary School	Male	Clothing and neckties

Government officials

Name	Age	Education	Gender	Bureaucracy
Liu	42	College	Male	Food and Agriculture
Song	42	Junior College	Male	Tax
Zhou	36	College	Female	Industry and Commerce
Li	37	College	Male	Industry and Commerce

APPENDIX 2: ABOUT THE FIELD SITE

Details of the City¹¹

Shengzhou City, located in the east of Zhejiang Province, covers an area of 1,784 square kilometres. It's only about 3 hours' drive from Shanghai, and about 1.5 hours' drive from Hangzhou, Ningbo or Jinhua. It has the delightful climate with four seasons and plenty of rain in the year.

Shengzhou is one of the first coastal cities and counties with an opening economic system. In 1994, the people achieved the Fairly Well-off aim ahead of time. And in 1997, the gross industrial and agricultural value of output reached more than 100,000 million RMB yuan, and GDP reached 88,000 million RMB yuan. In 2001, GDP reached more than 100,000 million RMB yuan. As a growing medium modern city, Shengzhou has 8 main industries, such as silk knitting, clothing and neckties, machinery, electrical equipment, mineral products, building materials, bamboo weaving handicrafts and clay sculpture. The yearly necktie output reaches 200 million, accounting for 80% of the yearly necktie output of China. And Shengzhou ranks first in Asia in the production and sale of electroacoustic devices. It is also rich in mineral resources, such as diatomite, granite, sand and medical stone. Especially, it has the largest reserves of diatomite in China. Shengzhou is also famous for its tea, fruits and silkworm cocoons.

The famous Yue Opera artist Yuan Xuefen, the world champion of weiqi chess Ma Xiaochun and the famous economist and demographic theoretician Ma Yinchu

¹¹ Data resource: <http://www.ny110.net/zsyj/indexe.php>

were born here in this city. Shengzhou City is famous as "Home of Yue Opera", "Home of Weiqi Chess", "Home of Necktie", "Home of Bamboo Weaving", "Home of Electroacoustic Devices", "Home of Tea", and "Home of Lily Magnolia".

Details of “Excellent Investment Environment” Movement¹²

In order to promote foreign trade and economic and technical cooperation, the CPC Shengzhou Committee and Shengzhou People's Government formulated series of policy documents, such as CPC Shengzhou Committee Document No.2001-16, Shengzhou Government Document No.2001-93, No.2001-104 and No.2002-53. These documents include the following three main respects:

Finance Supporting policies

- Sharing the favourable policy " Two Exempts and Three Half Deducts " of the country, the new foreign-sino joint enterprises, foreign-sino cooperation enterprises and solely foreign-owned enterprises will share full allowance of the local left part of the income tax for the first three years, and in the next two years, 50% of for allowance. For the domestic investment enterprises from outside Shengzhou, they will also share the favorable policy as follows: Productive projects between 30 million and 50 million RMB yuan share one year's full allowance, and the second year 50%. Productive projects between 50 million and 100 million RMB yuan share two years' full allowance, and then 50% for the next three years

¹² Data resource: <http://www.ny110.net/zsyztzcc.php>

Favorable Policy For Land Use

- Foreign actual investment of USD500, 000 or above for the productive projects can share the favorable policy for land use: 70,000 RMB yuan per mu. Foreign actual investment of 2 million US dollars or above can share: 50,000 RMB yuan per mu. Foreign actual investment of 10 million US dollars or above can share: 30,000 RMB yuan per mu. Domestic actual investment from outside Shengzhou of 30 million RMB or above for productive projects can share: 70,000 RMB yuan per mu. Domestic actual investment from outside Shengzhou of 50 million RMB or above for productive projects can share: 50,000 RMB yuan per mu, and domestic actual investment from outside Shengzhou of 100 million RMB or above for productive projects can share more after further face-to-face talks.

Polices For Agricultural And Sideline Products Intensive Process

- Foreign investment projects for the agricultural and sideline products intensive process in the Economic Zone can share the land price 80,000 RMB yuan per mu and meanwhile they can share the favorable policy for land use for foreign investors. Besides, they can also share the favorable policies for production, daily life and services.

Special Promises From The Bureau of Agriculture

- To develop the agricultural industrialization is one of the futons of Shengzhou

Agriculture Bureau. So, Shengzhou Agriculture Bureau offers the following promises to all foreign investors for the agricultural investment projects:

1. We will send specially assigned persons to help with all related procedures for all the investment projects received by us.
2. We will help contact for the land for all the foreign investment projects in agriculture.
3. For all the foreign investment projects in agriculture, we will first apply for national and provincial agricultural integrated development projects etc to gain supports from the country.

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